



Embassy of the Federal Democratic Republic of Ethiopia

Investment Opportunity in the Textile and Garment Industry Sector 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 textile sector is targeted as a key economic activity towards harnessing the growth of the national economy by generating foreign currency. The main objective is maximising utilization of existing production capacity, increased export earnings, and investment in the sub-sector. Modernizing the sector by attracting foreign investor who has the technology and global market connection is being worked out.

There is a commitment to support the industry throughout the value chain, thereby insuring value addition and import substitution of accessories and components. The Ministry of Industry and Ethiopian Textile Industry Development Institute (TIDI) are the focal government bodies which regulate and support the Industry. TIDI has signed an agreement with National Institute of Fashion Technology of India (NIFT) and SITRA to collaborate in the area of capacity building.

2. Existing Factories

Ethiopia has an integrated textile supply chain which includes spinning, weaving, knitting, dyeing and finishing. New technologies are being used in most of the new set up of clothing factories.



Numerous privately-owned factories produce shirts, suits, work clothes and uniforms for local and international markets. There are 17 textile mills and 65 garment factories. The product range of the sector includes; lint cotton, variety of yarns (cotton and cotton blended, acrylic, mélange), fabrics (cotton, nylon, woolen), blanket (woolen, waste cotton, others), bed-sheets, shirt, carpets, bags, hosiery, wearing apparels, sweater, and more.

In order to facilitate the setting up of plants an industrial zone with the already made shed and facilities are ready. The main clusters in the textile sector are located in Addis Ababa, Mekele, Dire Dawa, Bahir Dar and Nazerth cities. Investors can either rent a shed or lease a land for setting up of their own shed.

3. Brands producing in Ethiopia



PHB Group

4. Growing International Standard Factory Base

MAA Garments – Jersey wear across all Cats (Vertically Integrated)



Ayka Addis – Jerseywear (Vertically Integrated)



5. Investment Opportunity

Textile industry sector has many advantages to offer for investors starting from the production of cotton which is a largely used raw material in the sector. Moreover, the product/supply value chain of the industry provides wider opportunities for investors to either specialize in a certain products or involve in the production of integrated products. The industry is growing rapidly since the past recent years. This growth has stimulated both the export and domestic consumption of textile.

6. 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.
- 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.

7. 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 textile and textile products industry

No	Investment Area	Exemption from income tax (in years)	
		In Addis Ababa and Special Zone of Oromia surrounding Addis Ababa	In other areas
1	Preparation and spinning of cotton, wool, silk and similar textile fibers	4	5
2	Weaving, finishing and printing of textiles	5	6
3	Finishing of fabrics, yarn, wrap and weft, apparel and other textile products by bleaching, dyeing, shrinking, sanforizing, mercerizing or dressing	3	4
4	Other textile finishing activities	2	3
5	Manufacture of knitted and crocheted fabrics	4	5
6	Manufacture of made-up textile articles, except apparel	4	5
7	Manufacture of carpets	4	5
8	Manufacture of wearing apparel (including sport wears)	5	6
9	Manufacture of accessories for textile products	5	6

- 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.Taxation

No	Type of Tax	Rate
1	Corporate Income Tax	30%
2	Turn over Tax	2% and 10%
3	Excise Tax	10 up to 100%
4	Customs Duties	0% up to 35%
5	Income Tax for Employment	0% up to 35%
6	Withholding Tax	2%
7	Value Added Tax	15%
8	Export Tax	Nil
9	Royalty Tax	5%
10	Dividend Tax	10%

9.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.

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 since 2004.

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 close 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 service is provided by the Ethiopian Investment Agency.

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:

**Embassy of the Federal Democratic Republic of Ethiopia
Business Section**

7/50-G, Satya Marg, Chanakyapuri, New Delhi -110021
Tel +91 11 2611 9513/14, +91 11 24675367, Fax +91 11 2687 5731,

Email: delethem@yahoo.com, ethiopianemb@yahoo.com

Business Section: jerusalemamde@gmail.com , website: www.ethiopiaembassy.in