

Ethiopian Investment Agency

Investment Opportunity Profile for The Manufacturing of Leather Garments and Articles in Ethiopia

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1. Background

Ethiopia has a long tradition in processing and export of leather and leather products. However, the modern leather goods industry dates back to the time when the modern tanning industry was established in mid 1920s. It was initially developed in the context of an import substitution program and was highly protected from import competition to produce footwear products for the domestic market.

According to the Statistical Abstract 2005/06 of the Central Statistical Authority(CSA), there are about 45 footwear-manufacturing industries in the Country, out of which 2 are state-owned. In addition to this, there are 14 medium and small private leather goods manufacturing industries. The production levels of these industries between 2001/02 and 2005/06 are presented in the following table.

Table 1: **Production of Major Leather Goods and Articles (2001/02-2005/06)**

No	Item	Unit of measurement	Year				
			2001/02	2002/03	2003/04	2004/05	2005/06
1	Leather shoes and boots	'000 pairs	1098.6	866.9	1081.5	846	1287
2	Leather upper and lining	'000 sq. meter	923	520	739	685	608
3	Leather garment	'000 sq. feet	4669	6654	8972	9465	9615

Source: CSA, Statistical Abstract 2007.

2. Resource Base

2.1 Raw material

Raw material availability is one of the factors, if not the major factor, that influences the expansion of the leather sector. Ethiopia is one of the countries that have the largest herd of livestock population in Africa. Thus, its resource base for the development of the leather and leather goods industry is substantial. According to the Statistical Report on Farm Management Practices, Livestock and Implements 2003 of the Central Agricultural Census Commission (2007/08), in 2008, the livestock population of the Country is estimated at about 47.5 million heads of cattle, 26.1 million heads of sheep and 21.7 million heads of goats. However, the extent to which the available resource is exploited depends on the off-take rate, which is in turn a result of the level of economic development of a country. The annual off-take rate from the Country's cattle is estimated at 7% while from sheep and goats it is estimated to be 33% and 38% respectively. The annual potential supply of hides and skins is estimated at 2.91 million pieces of hides and 10.00 million pieces of skins. Table 2 below shows production of semi-processed hides and skins in the Country between 2001/02 and 2005/06.

Table 2: **Production of Semi-Processed Hides and Skins (2001/02-2005/06)**

No	Item	Unit of measurement	Year				
			2001/02	2002/03	2003/04	2004/05	2005/06
1	Skins	'000 pcs	10489	12797	11736	10818	23562
2	Hides	'000sq. feet	4569	13094	11067	12106	18099

Source: Source: CSA, Statistical Abstract 2007.

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.

The high fiber structure of the highland sheepskins and goatskins of the Country has given these products a very high acceptability on the world leather market and as the result “Bati genuine” goatskin and “Salalie sheepskin” which have got their names from Bati town and Salalie area of Ethiopia, respectively, valued at premium. Goatskin and sheepskin from other sources that are similar to these products are referred to as “ Bati type” and “Salalie type”, respectively, and given the second best price.

To increase the level of value added retained in Ethiopia, the Government encourages the processing of hides and skins to finished and further proceeding to the leather products industry rather than being limited to semi-processing for export.

2.2 Labour

With a population over 80 million, Ethiopia has abundant, hard-working, inexpensive and easily trainable labour force. The average wage for unskilled labour generally ranges from Birr 12-15 (US\$ 1.24-1.55) per day. The salaries of fresh university graduates normally range from Birr 1000-1300 (US\$ 104-135) per month.

3. Market

The world market for leather goods and articles is about US\$ 40 billion per year. Despite the availability of huge potential for the production and export of leather garments and articles, Ethiopia’s share in the world market is currently significant (See Table 3 below).

Table 3: **Ethiopia’s Position in the World Leather Products Market**

No	Item	Value(‘million)			
		1997	1998	1999	2000
1	World import (total)	43,559	40,546	39,190	NA
	1.1 leather footwear	28,527	26,853	26,379	NA
	1.2 Footwear components	5,033	4,716	4,333	NA
	1.3 leather garments	3,607	3,277	3,110	NA
	1.4 leather goods	4,774	4,155	3,939	NA
	1.5 Sadlery & Harness	360	380	413	NA
	1.6 leather gloves	1,258	1,165	1,016	NA
2	Ethiopia’s export (total)	0.063	0.095	0.055	0.076
	2.1 leather goods	0.031	0.005	0.02	0.006
	2.2 footwear and soles	0.032	0.090	0.035	0.070

Source: Integrated Development Consultants , The Study on “Harmonization of Trade Tariffs in the Leather Sector in Eastern and Southern Africa”, 2003; <http://www.indianleatherportal.com/leather-statistics/world-import.html>.

Ethiopia, not only has little leather goods and articles to export but also it can not currently satisfy the growing domestic demand. As a result, it imports leather footwear and articles from abroad. The table below shows import of leather footwear and articles between 2005 and 2007.

Table 4: **Import value of Leather Footwear and Articles ('000 Birr)**

Year	Leather Footwear	Leather Article	Total
2005	174027	41243	215270
2006	253735	58759	312494
2007	274092	60383	334475

Source: CSA, Statistical Abstract, 2007

4. Investment Incentives

To encourage private investment, the Ethiopian Government has developed a package of incentives under Regulations No.84/2003 for investors engaged in new enterprises and expansions, across a range of sectors. These incentives are available both to foreign and domestic investors and the said Regulations doesn't discriminate between a foreign and domestic investor or between foreign investors of different nationalities. The type of incentives that are available both to foreign and domestic investors are the following:

4.1 Customs Duty Exemption

- A 100 percent 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 percent 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.

4.2 Income Tax Exemption

- Any income derived from an approved new manufacturing, agro-industrial or agricultural investment is exempted from the payment of income tax ranging from 2-8 years depending up on the area of investment, the volume of export and the location in which the investment is undertaken.
- Income derived from an expansion or upgrading of an existing manufacturing, agro-industrial or agricultural enterprise is exempted from income tax for a period of two years if it exports at least 50% of its products and increases, in value, its production by 25%.

4.3 Loss Carry forward

Business enterprises that suffer losses during the tax holiday period can carry forward such losses for half of the income tax exemption period, after the expiry of such period.

5. 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.

6. Investment Guarantee and Protection

In Ethiopia both the Constitution and the investment Code protect private property. Ethiopia is also a member of MIGA, which issues guarantees against non-commercial risks to enterprises that invest in signatory Countries. Besides, the Country has signed bilateral investment promotion and protection treaties with a number of Countries and is also in the process of signing such treaties with a number other Countries.

7. Cost of Land and Utilities*

7.1 Land

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. Leaseholders have the right to use urban land for up to 60 years in Addis Ababa and in a town designated as of the grade of Addis Ababa, and up to 80 years in other towns. The period of lease may also be renewed.

* 1US\$ = Birr 8.7923 (as of May 25,2004)

The average costs of land in industrial zones designated so far are as follows;

- Addis AbabaUS\$ 15.2-256.7 per m² for the lease period
- Dire Dawa..... US\$ 0.58-1.01 per m² for the lease period
- Oromia.....US\$ 0.07-0.15 per m² per year
- Southern Nation,
Nationalities and Peoples'
Regional State.....US\$ 0.01-0.08 m² per year
- Amhara.....US\$ 0.7-6.21 m² per year
- Tigray*US\$ 0.03-0.08 m² per year

7.2 Utilities

The cost structure of utilities is as follows:

a) Electricity

- Low voltage time-of-day industrial:
Equivalent flat rate.....US\$ 0.06 per KWh
- High voltage time-of-day industrial 15kv:
Equivalent flat rateUS\$ 0.042 per KWh
- High voltage time-of-day industrial 132kv:
Equivalent flat rate..... US\$ 0.039 per KWh.

b) Telephone

- Fixed telephone.....US\$ 0.02 per six minutes
- Mobile telephone
 - Mobile to mobile.....US\$ 0.074 per minute
 - Mobile to fixed.....US\$ 0.155 per minute

c) Water (in Addis Ababa)

- Residential
 - 0-7 m³US\$ 0.18 per m³
 - 7-20 m³US\$ 0.27 per m³
 - above 20 m³US\$ 0.34 per m³
- Non-residential.....US\$ 0.34 per m³

8. Taxation

The principal tax rates of the Country are as follows:

- Corporate income tax.....30%
- Turnover tax
 - From goods supplied to the

** Free of charge if the investment is Agro-industry and exports at least 50% of its output.

- 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 employment0-35%

9. 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.....in 6 hours
- issuance of commercial registration certificate» 6 »
- issuance of business license» 6 »
- issuance of work permit.....» 2 hour
- registration of technology transfer agreement.....» 1 hours
- registration of export oriented non-equity based foreign collaboration.....» 1 hour
- facilitation of the acquisition of land and utilities .

Hence, the availability of adequate raw material (i.e., finished leather and semi-processed hides and skins) and its high quality, the existence of abundant and cheap labour force, the growing world and domestic demand for leather garments and articles and the favourable investment climate existing in the Country provide an opportunity for the establishment of leather garments and articles manufacturing industries in the Country.