



# Investment Opportunity Profile for Cotton Spinning Mill in Ethiopia

April 2014



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**Ethiopian Investment Agency**

## Objective of this Document

- This investment profile was prepared by the Ethiopian Investment Agency (EIA) through technical assistance from the Ethiopian Agricultural and Transformation Agency (ATA) and Monitor Deloitte, a division of Deloitte Consulting, a global management consulting firm
- It provides an overview of an investment opportunity for regional and international investors who are looking for strategic or financial investments in Ethiopia

## Opportunity Definition

- The investment opportunity profiled is the establishment of a cotton spinning mill with an annual output capacity of 8,000 MT
- The high quality cotton yarn produced would be packaged and supplied primarily into Ethiopia's growing textile industry (80%), with surplus production exported to the global textile and garment manufacturing market (20%)
- An initial investment of USD 44.6m is projected to return an IRR of 19% over 5 years

Note: This investment case was prepared by the EIA with assistance from Monitor Deloitte – part of Deloitte Consulting, an independent, global management consultancy firm. Funding for the investment case analysis was provided by the Agricultural Transformation Agency (ATA). Findings are based on public and proprietary information, as well as information gathered by Monitor Deloitte through field investigation and qualitative interviews with industry experts and other key stakeholders. Monitor Deloitte does not make any representation or warranty, express or implied, as to the accuracy, completeness, or correctness of the information contained herein, nor does it accept any liability for any loss or damage, howsoever caused, arising from any errors, omissions, or reliance on any information or views contained in this document. Monitor Deloitte is not a financial advisor; therefore, this document does not represent financial advice.

# Abbreviations and Acronyms



*Abbreviations and acronyms used in this investment profile are defined below*

<b>AGOA</b>	Africa Growth and Opportunity Act
<b>AU</b>	African Union
<b>ATA</b>	Agricultural Transformation Agency
<b>AfT</b>	Aid-for-Trade
<b>CAGR</b>	Compound Annual Growth Rate
<b>DBE</b>	Development Bank of Ethiopia
<b>EIA</b>	Ethiopian Investment Agency
<b>ERCA</b>	Ethiopian Revenue and Customs Authority
<b>EIB</b>	European Investment Bank
<b>ECPGA</b>	Ethiopian Cotton Producers, Ginners and Exporters Association
<b>FDI</b>	Foreign Direct Investment
<b>GDP</b>	Gross Domestic Product
<b>GoE</b>	Government of Ethiopia
<b>GTP</b>	Growth and Transformation Plan

<b>IDZ</b>	Industrial Development Zone
<b>ILO</b>	International Labor Organization
<b>IRR</b>	Internal Rate of Return
<b>kWh</b>	Kilowatt Hours
<b>MMT</b>	Million Metric Tons
<b>NPV</b>	Net Present Value
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>PPE</b>	Property, Plant and Equipment
<b>SHF</b>	Small-Hold Farmer
<b>TIDI</b>	Textile Industry Development Institute
<b>UNECA</b>	United Nations Economic Commission for Africa
<b>USA</b>	United States of America
<b>USD</b>	United States Dollars
<b>USDc</b>	United States Cents



- **Why Invest in Ethiopia?**
- Cotton Spinning Investment Opportunity
- Contact Information
- Appendix

# Why Invest in Ethiopia?

## Overview of Ethiopia



*Ethiopia is home to a growing consumer market and is geographically positioned to provide good access to African, European, Middle Eastern and Asian markets*

### Ethiopia: A Land of Opportunity

- Ethiopia's population of ~93 million, **Africa's second highest**, provides for a **large domestic market**
- **It is well positioned for global exports** and is situated at the cross-roads of Africa and the Middle East
  - Easy access to Asia through the port of Djibouti and close proximity to Europe also enable Ethiopian exports
- Ethiopia's Gross Domestic Product (GDP) stands at USD 43.13bn and it is among the **fastest growing global economies**
  - Average growth of ~9.5% per annum has been achieved over the last five years
- Ethiopia has a land area of **1.14 million square kilometers, 45% of which is arable**
  - This is approximately **twice the size of the United Kingdom**
- Although **Amharic is the official language**, English is spoken widely in business



# Why Invest in Ethiopia?

## Growing Economy

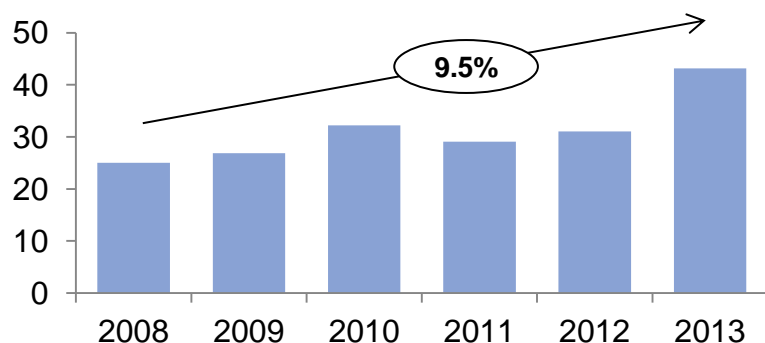


*The Ethiopian economy has experienced strong economic growth over the past ten years and is forecasted to become the third fastest growing economy in the world by 2015*

### Ethiopia's Rapidly Growing Economy

- Ethiopia is one of the **world's fastest growing economies** with a GDP compound annual growth rate (CAGR) of approximately 9.5% between 2008 and 2013
- The Government of Ethiopia (GoE) has played a **key role in driving this economic growth**
  - Two thirds of Ethiopia's economic growth between 2011 and 2012 was **ascribed to public investment** with investment in infrastructure reaching USD 6bn (20% of GDP) in 2010
  - **Regulatory and institutional reforms**, such as improved business registration requirements and procedures have helped to strengthen investor confidence
  - The Government of Ethiopia (GoE) has set an ambitious target of achieving **middle-income country status by 2025**
- This rapid **growth is expected to continue** on the back of infrastructural growth, as well as industrial and service sector expansion

**Ethiopia GDP, 2008 – 2013 (USD Bn)**



**World's Five Fastest Growing Economies**

Annual Average GDP Growth, %

Rank	2001–2010		2011–2015	
1	Angola	11.1	China	9.5
2	China	10.5	India	8.2
3	Myanmar	10.3	Ethiopia	8.1
4	Nigeria	8.9	Mozambique	7.7
5	Ethiopia	8.4	Tanzania	7.2

# Why Invest in Ethiopia?

## Political Stability



*Ethiopia is a politically stable and secure environment for investors and has taken a strong position on good governance*

### Stable Political Environment



- Since the installation of a **federal democratic government** in 1992, Ethiopia has built a **politically stable, secure and peaceful** working environment
- Democratic processes are observed and a **peaceful transition of power** occurred upon the death of the late Prime Minister Meles Zenawi in 2012

### Political and Security Integration



- Ethiopia is a **diplomatic and political hub** and hosts the headquarters of the African Union (AU) as well as United Nations Economic Commission for Africa (UNECA)
- Ethiopia is also a key **proponent of peace on the continent** and is regularly involved in conflict resolution in the region

### Good Governance



- GoE is **committed to promoting good corporate governance** practices in Ethiopia
- Ethiopia is also party to multiple international agreements to help further promote good governance in the region

*A number of large multi-national firms have invested in, and are enjoying success in Ethiopia*

### Agro-Processing Sector



- Heineken is the **third largest brewer** in the world with ~140 breweries in 71 countries
- The company **acquired local breweries**, Harar and Bedele for ~USD 36.2m and is **planning to build a new brewery in Addis Ababa**



- France's **largest beverage producer**, Castel Group, has **established a winery** in the Zeway region, Ethiopia
- The winery was established at a cost of ~USD 15.5m

### Manufacturing Sector



- **Turkish textile and garment company**, AYKA ADDIS Textile & Investment Group PLC, established operations in 2010 with an estimated USD 67.2m investment, **one of the largest foreign direct investment (FDI) investments in Ethiopia to date**



- Dangote Industries PLC, a subsidiary of the Nigerian conglomerate, the Dangote Group, was established in 2008
- The company is **developing a new 2.5 million metric tons (MMT) per annum cement plant**, to meet growing demand from the booming construction industry

### Services Sector



- The **Rezidor Hotel Group**, based in Brussels, introduced the Radisson Blu brand into Ethiopia in 2012
- The hotel is estimated to have cost ~USD 25m to construct



- The **Italian construction firm Salini** is located in Addis Ababa
- The firm is currently **constructing the biggest dam in Africa**, the Grand Ethiopian Renaissance Dam
  - Heavy duty machinery worth over USD 35m has already been imported for this USD 4.3bn project





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- **Cotton Spinning Opportunity**
- Contact Information
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# Cotton Spinning Opportunity

## Executive Summary



### 1 Market Opportunity



- Domestically, the demand for cotton yarn is outstripping supply, having grown by 23% over the last four years in comparison to 21% growth in supply
- Ethiopia has the competitive advantage to produce yarn at low cost and service this market but currently lacks the capacity to do so
- Globally, the demand for Ethiopian cotton yarn has been increasing by 11% per year as a result of increased quality of yarn production in Ethiopia

### 2 Investment Highlights



- The investment opportunity is in a green-field cotton spinning mill in Ethiopia
- The cotton spinning plant will source its raw materials locally and serve both local and export markets
- New, world class equipment will be used to ensure top quality yarn produced
- The opportunity requires a capital investment of USD 44.6m and is expected to generate an internal rate of return (IRR) of 19% over 5 years
- The project is expected to create 260 job opportunities in Ethiopia

### 3 Enabling Environment



- Key strategies, policies and incentives implemented by GoE such as tax holidays create a favorable operating environment
- In addition, various enablers are being initiated by public stakeholders and donors along the cotton and textile value chain, these include cheaper bank loans and match-making between Ethiopian cotton yarn and textile producers and buyers from the United State of America (USA) and Europe

### 1 Market Opportunity



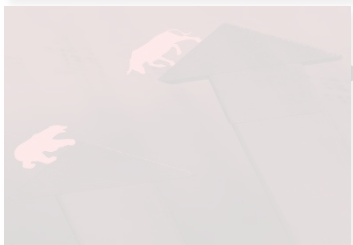
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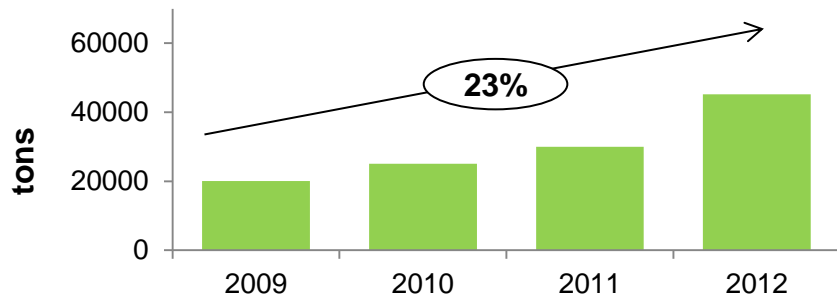
# Market Opportunity

## Shortage of Local Supply



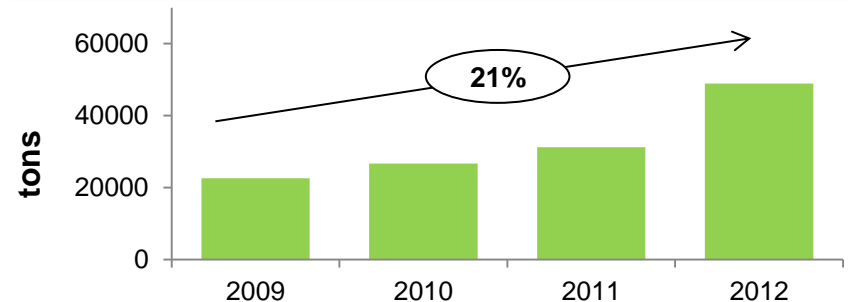
*Although the growth in local cotton yarn supply has been significant over the past four years, it cannot keep up with the current growth in demand*

Local Demand



- Domestic demand for cotton yarn has been driven by the **growth in the textile and garment industry**
  - Ethiopia was one of the fastest growing apparel exporters between 2005 – 2011
- The **GoE has placed a large emphasis on growing the textiles industry** from a USD 21.8m to a USD 1bn industry by 2015 according to the Growth and Transformation Plan (GTP)
- Local demand is expected to continue to grow driven by an **increase in quality of yarn produced and disposable incomes**
  - **GDP per capita** has grown on average by 9.9% per annum

Local Supply

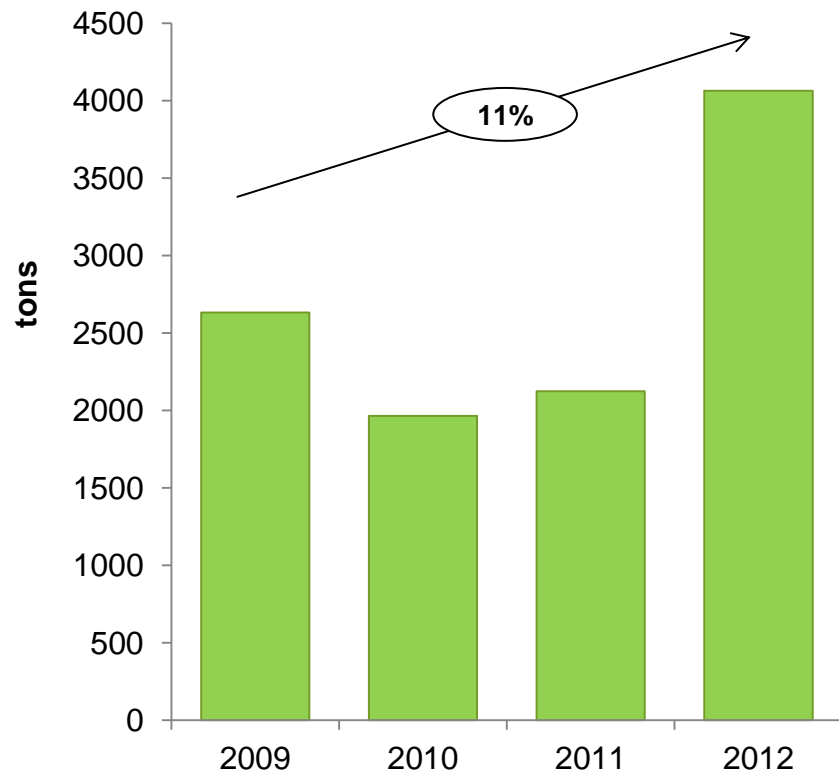


- Cotton yarn production **has grown at a CAGR of 21%** over the last four years
- Whilst this growth has been significant, **Ethiopia will struggle to maintain this level of growth or match local demand**
  - Ethiopian spinning mills can currently produce a maximum of ~87 100 tons
  - However the average capacity of the plants is only around 60% (~52 260 tons) due to **old machinery, poor management and lack of trained labor ability**
  - This is likely to cause a supply gap which will tend to increase unless more yarn can be produced



*Globally, the demand for Ethiopian cotton yarn has grown significantly and is expected to continue to rise*

## Ethiopian Yarn Exports



- Ethiopian cotton yarn **exports grew 11% over the past four years** due to increased production from mills and the improved quality of domestically produced cotton yarn
- As the **quality and production methods for yarn** become more efficient in Ethiopia this trend looks set to continue
- GoE has also put an emphasis on export industries and has **incentivized companies to export**
  - **Six years tax holidays** are available for textile companies who export greater than 60% of their yarn or supply the yarn to a garment and apparel manufacture who in turn exports more than 60% of produce

# Market Opportunity

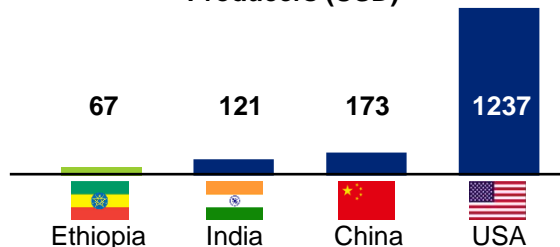
## Competitive Advantages



*Ethiopia is an ideal environment for the processing of cotton due to the availability of cheap labor, low cost of electricity and supply of cotton*

### Availability of Labor

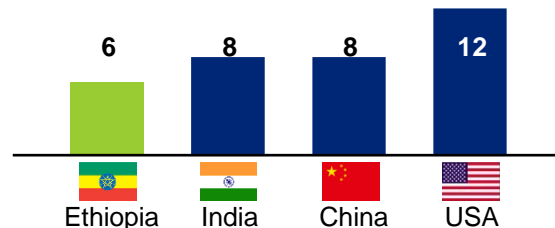
Ethiopian Minimum Wage vs. Top Yarn Producers (USD)



- **Average wages are significantly cheaper** than top global producers of cotton yarn
  - They are also lower than top African yarn producers such as South Africa (USD 390) and Morocco (USD 371)
- Ethiopia has a **large labor force** of ~ 38 million people
- A large proportion of this labor force is **semi-skilled and easily trainable**

### Cheap Electricity

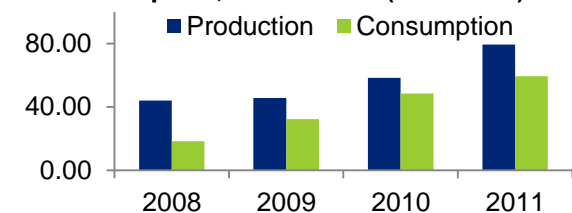
Ethiopian Electricity Cost<sup>1</sup> vs. Top Yarn Producers (USDc / kWh)



- Ethiopia has the **cheapest electricity** compared to the top three global producers of cotton yarn<sup>1</sup>
  - They are also cheaper than top African yarn producers such as South Africa (8.13 USDc / kWh) and Morocco (10.1 USDc / kWh)
- The GoE is investing in **large power production projects** to ensure constant supply of electricity
  - A key example is the Grand Ethiopian Renaissance Dam

### Availability of Cotton

Ethiopian Cotton Lint Production and Consumption, 2008 – 2011 ('000 Tons)



- Ethiopia currently **produces sufficient cotton lint**, the major raw material for cotton yarn, for the domestic textile industry
- Cotton lint **can also be imported without duty** for use in the manufacturing process

# Market Opportunity

## Competitive Landscape



*There is no single dominant player across or within a particular stage of the textiles industry value chain, and cotton spinning in particular is attractive for new market entrants*

### Textile Value Chain Competitive Landscape

Stages	Seed Multiplication	Farming	Ginning	Spinning	Garment Manufacture
Competitor Distribution	<ul style="list-style-type: none"> <li>There are no established local seed producers</li> </ul>	<ul style="list-style-type: none"> <li>There are three types of cotton farmers, namely:                             <ul style="list-style-type: none"> <li>State Farms</li> <li>Commercial Farms</li> <li>Small-Hold Farmers (SHF)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Currently there are 18 companies engaged in ginning</li> </ul>	<ul style="list-style-type: none"> <li>Currently there are 16 companies producing cotton yarn</li> </ul>	<ul style="list-style-type: none"> <li>Many local and global companies are involved in textiles and clothes manufacturing</li> </ul>
Observations	<ul style="list-style-type: none"> <li>Seed multiplication is not done on a commercial level</li> <li>Mainly for own consumption on farms</li> </ul>	<ul style="list-style-type: none"> <li>SHFs generally produce a lower grade cotton</li> <li>Most high grade cotton is produced by commercial farms with new technologies</li> </ul>	<ul style="list-style-type: none"> <li>Market consists of state-owned and private ginneries</li> <li>Contract ginning is common practice in Ethiopia</li> </ul>	<ul style="list-style-type: none"> <li>No firm produces more than 15% of total cotton yarn</li> <li>Most firms are unable to operate at full capacity due to old machinery and poor management</li> </ul>	<ul style="list-style-type: none"> <li>There is a significant drive from the GoE to grow textiles and garments into a USD 1bn industry by 2015 through the GTP</li> </ul>

# Cotton Spinning Opportunity

## Investment Highlights



### 1 Market Opportunity



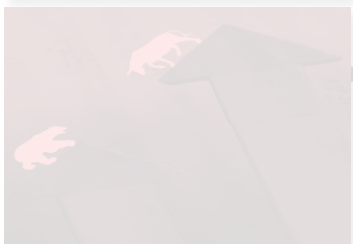
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### 3 Enabling Environment



- Key strategies, policies and incentives implemented by GoE such as tax holidays create a favorable operating environment
- In addition, various enablers are being initiated by public stakeholders and donors along the cotton and textile value chain, these include cheaper bank loans and match-making between Ethiopian cotton yarn and textile producers and buyers from the USA and Europe



*The proposed spinning plant will purchase cotton lint from ginneries and sell the processed yarn both locally through wholesalers and internationally through marketers*

### Sourcing



- **Cotton lint is the main raw material** needed for the production of yarn and will be **sourced from local ginneries and traders**
- **Other raw materials**, such as paper cones, plastic bobbins and caps, cans and plastic bags are **readily available locally**

### Production



- The plant will use **new, state of the art spinning machinery** including renowned brand names such as Marzoli, Rieter, Trutzchler and Lakshmi<sup>1</sup>
- In the first year the plant is estimated to produce 6 400 tons, before producing at a **full capacity of 8 000 tons** in subsequent years<sup>1</sup>
- Full capacity will be based on planned production over 320 days a year<sup>1</sup>

### Products



- The production **plant will be able to produce three types of cotton yarn:**
  - Combed yarn
  - Carded yarn
  - Open-end yarn

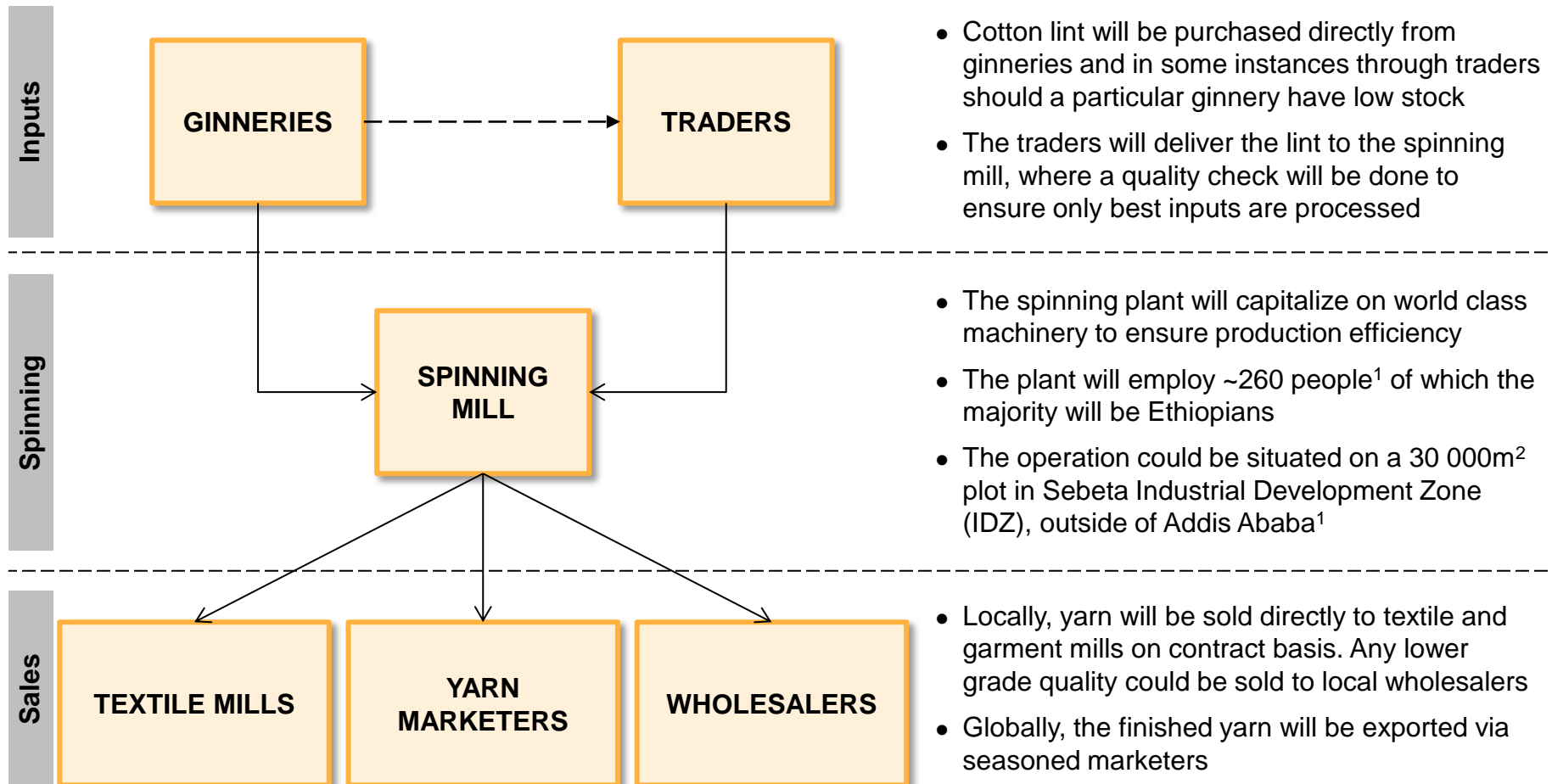
### Markets



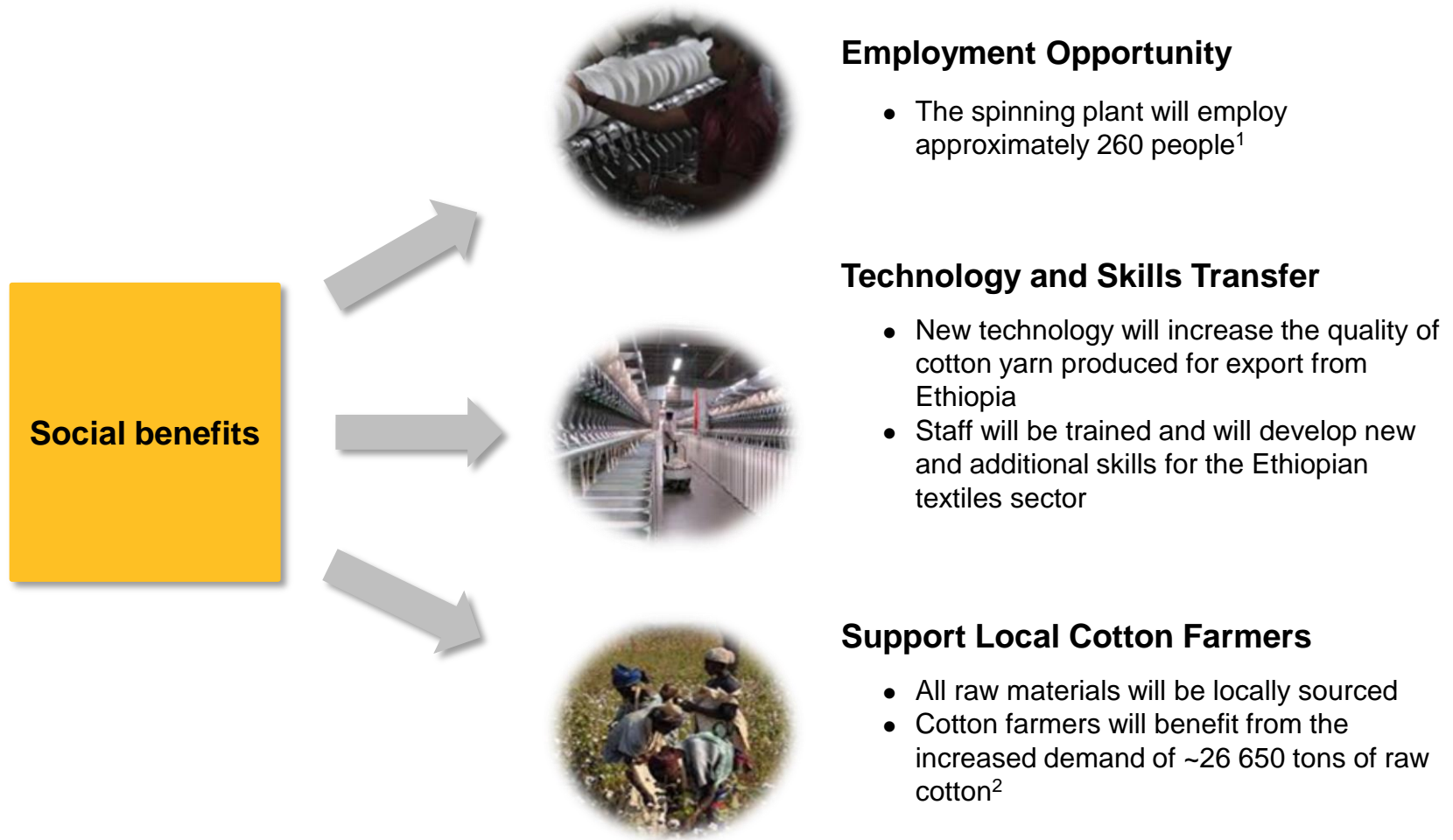
- Cotton yarn produced will be **sold primarily to the local market**
  - **80% will be distributed domestically** to textile mills who typically export their finished goods and therefore require high quality cotton yarn
  - **20% of yarn produced will be exported** to supply the higher quality grade yarn the mill produces to more stringent but potentially more profitable export markets

*The spinning plant will source quality raw materials locally and process the cotton lint efficiently into high quality cotton yarn to be sold in the market*

### Value Chain for Spinning Operation



*Apart from economic benefits, the investment will have a positive impact on Ethiopia's social development*



Note: <sup>1</sup>Based on a study and business plan commissioned and conducted by TIDI; <sup>2</sup>Based on average conversion rate observed from raw cotton to cotton lint (37.5%) and subsequently cotton lint to cotton yarn (80%) working backwards from 8000 tons of cotton yarn

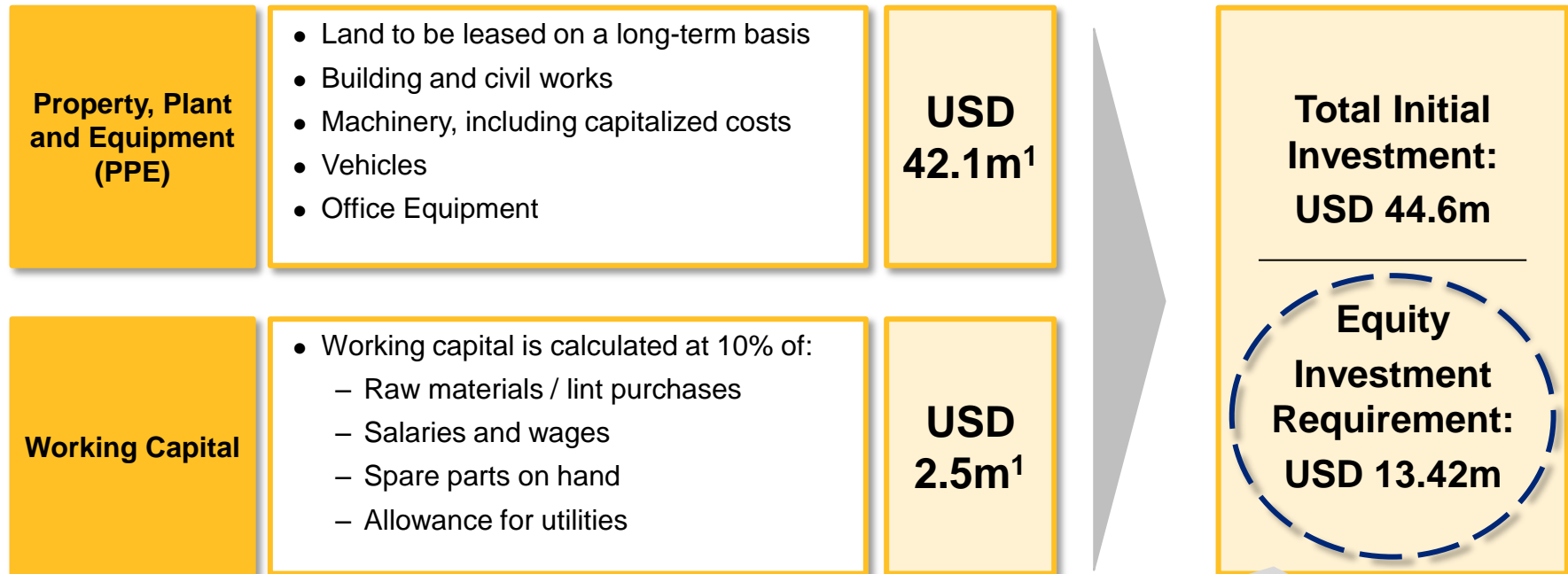
Source: Monitor Deloitte and EIA Analysis; TIDI - Engineering Service Directorate, 2013

# Investment Highlights

## Investment Required



*The opportunity will require an initial capital amount of USD 44.6m which could be funded through both equity and debt*



- The debt-to-equity ratio is calculated at 70:30
- This would take advantage of the relatively cheap bank rates (8.5%) offered by the Development Bank of Ethiopia (DBE) to promote priority sectors such as textiles
  - The DBE requires a minimum equity contribution of 30% capital from the investor

*No further investment is anticipated after the initial capital outlay, and the project can be expected to generate a NPV of USD 4.2m and IRR of 19%*

### Investment (Year 0)

<b>Total Capital Investment (USD m)</b>	<b>44.6<sup>1</sup></b>
<i>PPE</i>	42.1 <sup>1</sup>
<i>Working Capital</i>	2.5 <sup>1</sup>

### Key Highlights (Year 5)

Internal Rate of Return (IRR)	19%
Net Present Value (NPV) (USD m)	4.2
Payback Period	4 years
Number of People Employed	260

### Forecasted Free Cash Flow



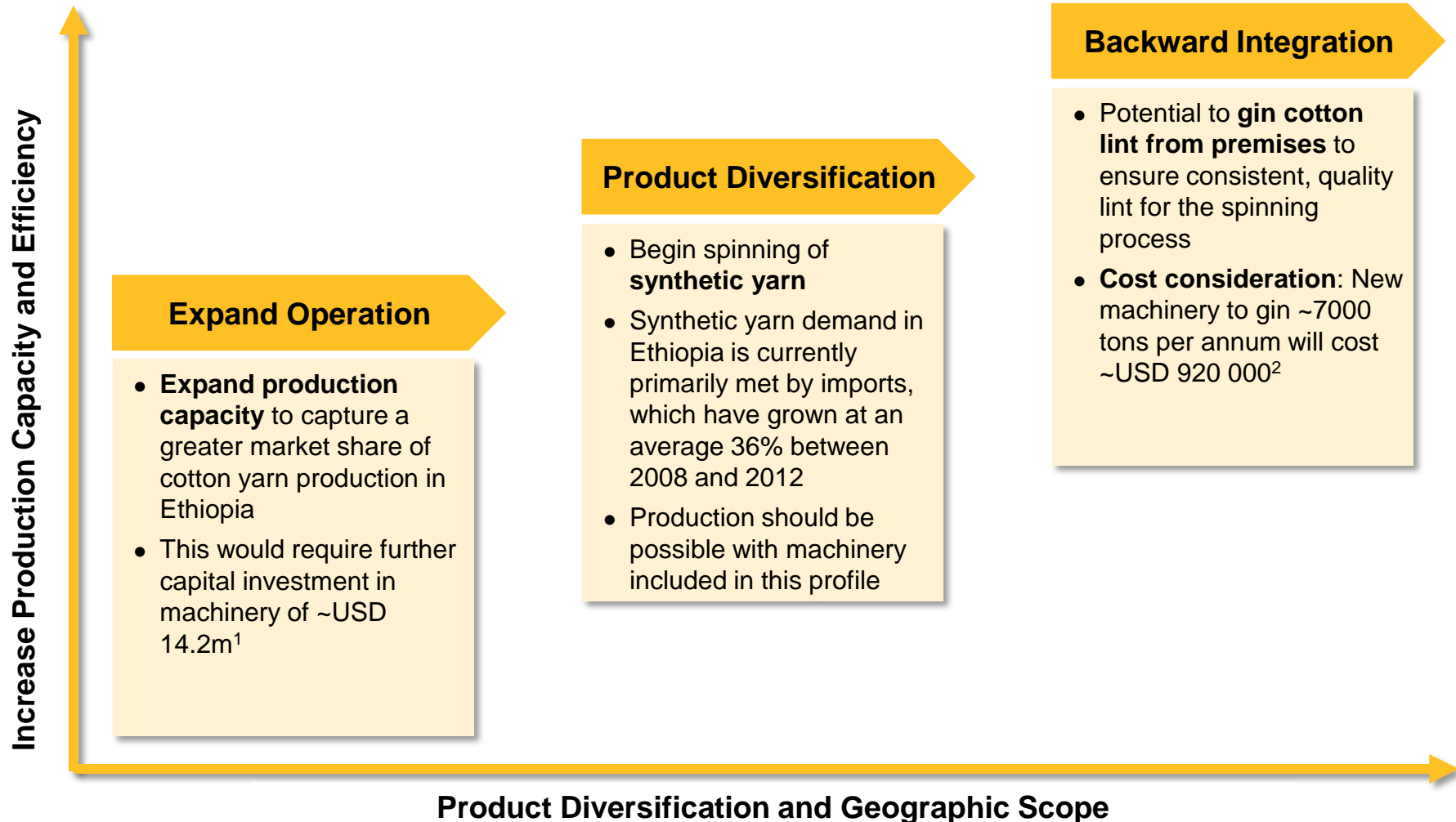
### Key Highlights

- The initial investment in year 0 includes capital raised for
  - PPE
  - Working capital
- After this initial investment there is no further capital investment assumed throughout the life of the model
- The project breaks even in year 4
- This positive cash position would continue to grow into the future
- This will allow the company to either
  - Pay down some of its debt
  - Reinvest to expand the company's operations

Note: <sup>1</sup>Based on a study and business plan commissioned and conducted by the TIDI; <sup>2</sup>IRR and NPV assume no terminal value after five years; Further detail available in appendix

Source: Monitor Deloitte and EIA Analysis; TIDI - Engineering Service Directorate, 2013

*Once the plant has established itself in the market over the first five years, potential will exist to expand operations or diversify the product offering*



Note: <sup>1</sup>Cost of new machinery to increase capacity by 50%; <sup>2</sup>Based on a study and business plan commissioned and conducted by TIDI

Source: Monitor Deloitte and EIA Analysis; Trade Map

*A number of mitigating options are available to address key challenges that may arise in the supply chain and regulatory environment*

	Risk Parameter	High	Med	Low	Mitigation Options
Supply Chain Risks	<b>Quality control issues:</b> The cotton market is relatively unregulated, which can lead to quality control issues		●		<ul style="list-style-type: none"> <li>The Ethiopian Cotton Producers, Ginners and Exporters Association (ECPGA) provides training to SHF on correct farming methods</li> </ul>
	<b>Environmental factors:</b> Droughts or excessive rains are a possibility, and may affect cotton production			●	<ul style="list-style-type: none"> <li>Import cotton lint through the port of Djibouti to alleviate any shortages</li> </ul>
	<b>Low capacity and productivity of farms:</b> Outdated farming methods can lead to decreased yields and production of cotton			●	<ul style="list-style-type: none"> <li>Coordinate with ATA's Cooperatives Team to select advanced cooperatives partners</li> </ul>
	<b>Logistical challenges:</b> Lack of-adequate warehouses to stock cotton lint and an under-developed road network affect the supply		●		<ul style="list-style-type: none"> <li>TIDI in the process of developing a strategy for storage warehouses</li> </ul>
Regulatory Risks	<b>Bureaucracy / lack of coordination:</b> Operationalization can be delayed due to bottlenecks in processes such as land allocation	●			<ul style="list-style-type: none"> <li>Enlist the support of EIA with regard to any operationalization bottlenecks</li> <li>Locate the plant in an IDZ as the process for land allocation in one involves less red tape</li> </ul>
	<b>Import of raw materials:</b> It could be difficult to move imported raw material through customs should quality or quantity not be available locally			●	<ul style="list-style-type: none"> <li>Obtain supporting letter from EIA to facilitate imports through the Ethiopian Revenue and Customs Authority (ERCA)</li> </ul>

Note: The level of risk relates to the presumed likelihood of the risk materializing

Source: Monitor Deloitte and EIA Analysis; Interviews with TIDI



*Mitigating options are also available to address the key challenges with regards to potential market and financial risks*

	Risk Parameter	High	Med	Low	Mitigation Options
<b>Market Risks</b>	<b>Labor capability:</b> Lack of skilled labor to produce quality yarn		●		<ul style="list-style-type: none"> <li>Engage TIDI to train local employees on best methods to produce quality yarn</li> </ul>
	<b>Price volatility of export markets:</b> Exchange rate risks and pricing risk may make selling price of yarn unprofitable			●	<ul style="list-style-type: none"> <li>Partner with international traders who have existing global relationships</li> </ul>
<b>Financial Risks</b>	<b>High inflation:</b> Loss of competitiveness due to rising input costs		●		<ul style="list-style-type: none"> <li>Engage in forward contracts with cotton cooperatives, offering market price premium</li> <li>Purchase / store stock in advance to hedge risk</li> </ul>

Note: The level of risk relates to the presumed likelihood of the risk materializing

Source: Monitor Deloitte and EIA Analysis; Interviews with TIDI



# Cotton Spinning Opportunity

## Enabling Environment



### 1 Market Opportunity



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*GoE provides a favorable climate for investment in the textiles industry through strategies, policy reforms and investor incentives*

## Government Plans

- GoE has prioritized the textile industry given its potential to reduce unemployment and grow the export base
- GoE has outlined bold plans for the industry in the GTP, including:
  - Grow the industry into a **USD 1bn industry** by 2015
  - Increase **export earnings**
  - **Increase investment** in sub-sectors such as skills development and training centers

## Policy Reforms

- GoE has placed emphasis on attracting foreign direct investment (FDI) as a critical component for economic development
- It has implemented policy to **ease the process of starting and operating a business in Ethiopia**
  - The **Investment Proclamation Act** has broadened the scope of activities of the EIA
  - **EIA is now mandated to act as a one-stop shop** for registering foreign investments and supporting investors become operational
- **Capital requirement exemptions are available** for companies operating in key industries, including textiles

## Incentives

- GoE offers a competitive incentive package from the point of setting up a business to repatriating profits, including
  - **Customs duty exemptions** on import of capital goods and machinery
  - **Tax holidays of up to six years** for businesses exporting more than 60% of their produce or supplying a similar amount to exporters,
  - Remittance of **profits and dividends** without any restrictions
- The GoE has also placed **guarantees against expatriation and nationalization**

*Key initiatives by public stakeholders and donors in the cotton and textile industry further create an enabling environment that supports this cotton spinning opportunity*

### Public / Donor Initiatives to Support the Textile Industry

- ECPGA has setup **training programs** to teach SHFs **modern, efficient and environmentally friendly** cultivation methods to improve both the quality and yield of their crops
  - The initiative has been given **access to loans** for the purchase of different inputs for the harvesting season
- The **Aid-for-Trade (AfT)** initiative aims to support the textile value chain to increase the quantity of cotton and lint being processed leading to a greater supply of raw materials

- The DBE provides subsidized loans, with interest rates of as low as 8.5%, to new and expanding businesses through support from the **European Investment Bank (EIB)**
- GoE has embarked on **various infrastructure projects** to improve the supply of electricity

Supply

Market Linkage

Processing

End Market

- The European Commission has offered substantial support for the **upgrade and improvement** of Ethiopia's infrastructure such as roads
- GoE has committed to spend ~USD 75bn in the GTP on:
  - 16 000 km of roads
  - 2 400 km of rail

- **TIDI** provides **match-making** between Ethiopian cotton yarn and textile producers and buyers from the USA and Europe
- Eligible Ethiopian cotton and textile goods are allowed **duty-free and quota-free importation into the USA** through the Africa Growth and Opportunity Act (AGOA)



- Why Invest in Ethiopia?
- Cotton Spinning Opportunity
- **Contact Information**
- Appendix



*For more information about this investment opportunity or other investment opportunities available in Ethiopia, please contact the following individuals from the EIA*

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# Capital Investment Breakdown



A breakdown of the cost of the investment is provided below

Capital Expenditure <sup>1</sup>	
<b>Total Capital Expenditure</b>	<b>USD 42.1m</b>
<b>Land</b> ( <i>lease rate per annum</i> )	<b>USD 10 340</b>
Size of Land	30 000m <sup>2</sup>
Lease Rate	USD 0.23/m <sup>2</sup>
Escalation Rate	0%
<b>Plant</b> ( <i>including civil works</i> )	<b>USD 6.1m</b>
Time to complete	1 year
<b>Equipment</b>	<b>USD 36m</b>
Machinery	USD 35.4m
Vehicles	USD 0.31m
Office Equipment	USD 0.26m
<b>Pre-Production Capital</b>	
Working Capital	USD 2.5m

Working Capital	
<b>Total Working Capital</b>	<b>USD 2.5 m</b>
Raw Material – Cotton Lint	USD 2.2m
Utilities	< USD 0.1m
Lease	< USD 0.1m
Wages and Salaries	< USD 0.1m
Spares and Maintenance	USD 0.26m
Financial Assumptions	
Cost of Equity	20%
Cost of Debt	8.5%
% of Equity	30%
% of Debt	70%
Tax Rate	30%
WACC	10%
Debt paid down per annum	Zero

Note: <sup>1</sup>Figures based on a study and business plan commissioned and conducted by TIDI

Source: Monitor Deloitte and EIA Analysis; TIDI - Engineering Service Directorate, 2013; EIA Factor Cost Book; Development Bank of Ethiopia



*Assumptions used to develop the financial model are listed below*

Category	Value	Assumption
<b>General</b>		
Exchange Rate	19.34	<i>Current exchange rate used to convert financial model into USD</i>
Tax Holiday	6 Years	<i>Tax holiday as supply &gt;60% of cotton yarn to export oriented textile companies</i>
Working Capital Allowance	10%	<i>Percentage of cotton lint fiber, utilities, lease, wages and salary and spares</i>
Depreciation Rate	5%	<i>Straight line depreciation over 20 years, no residual value</i>
<b>Revenue</b>		
Production Capacity <sup>1</sup> (tons)	8 000	<i>Production capacity assumes 320 working days with 3 shifts a day. Sundays and public holidays are excluded</i>
Production <sup>1</sup> (Year 1)	6 400	<i>Plant operates at 80% capacity in year 1 and 100% from year 2</i>
% Sold Locally	80%	<i>Majority sold in local market to satisfy growing textile demand</i>
% Yarn Exported	20%	<i>Exports to satisfy global market's higher quality requirements</i>
Expected Increase in Cotton Yarn Price	6%	<i>Prices continue to grow in line with the export price CAGR from 2009 - 2012</i>

Note: <sup>1</sup>Figures based on a study and business plan commissioned and conducted by TIDI

Source: Monitor Deloitte and EIA Analysis; TIDI - Engineering Service Directorate, 2013; EIA Factor Cost Book; Investment Regulation and Proclamation (270/2012); Trade Map





*Assumptions used to develop the financial model are listed below*

Category	Assumption	Justification and Source
<b>Cost of Goods Sold</b>		
Expected Increase in Cost of Goods	4%	<i>Based on increase in world price of cotton (2008 – 2012). As per TIDI study, lint is expected to grow at same rate</i>
<b>Operating Costs</b>		
Price Increase in Operating Costs	6.53%	<i>Forecasted inflation rate over next five years<sup>1</sup></i>

Note: <sup>1</sup>Trading Economics, [www.tradingeconomics.com](http://www.tradingeconomics.com), Accessed on 26 March 2014

Source: Monitor Deloitte and EIA Analysis; TIDI - Engineering Service Directorate, 2013; EIA Factor Cost Book; Investment Regulation and Proclamation (270/2012); Trade Map