



# **Ethiopian Investment Agency**

## **Investment Opportunity Profile for Rubber Plantation in Ethiopia**

**2012**

## **1. Historical background of rubber tree in Ethiopia**

History tells that until the beginning of the 20<sup>th</sup> century, the importance of natural rubber was not fully understood by the people of Ethiopia; through it was growing in many parts of the country. Its use was merely confined to building purposes alone, came to Gamblla and the surrounding areas, where rubber trees were prevalent.

Hasib ydllibi was born in the city of Manchester, England in 1866 of Strian father and a Circassian mother. He came to Ethiopia via the Sudan. Ydlibi was in charge of the karodfan Trading Company in the sudan. It was gum trading that brought him to Kordofan, in central Sudan, which gave the name to the company that he and his associates formed and it was as representative of that Company that ydlibi followed the course of the Nile into Ethiopia.

Ydlibi thought that if rubber grew in the Bahr-el-Ghazal province, it should also be found in Ethiopia. Thus he decided to make his journey to the south-western part of Ethiopia, which lies on the same altitude.

Ydlibi was warmly received by the governor of Sayo district, fitawrari Neure. Ydlibi camped in Neure's compound as his guest. While his tents were being pitched, ydlibi was ushered into Fitawrari Neure's hut and invited to rest.

Waiting for his host, Ydlibi had time to closely examine the structure of the hut. The hut was round in structure, the wooden frame of the building being cased in mud. He noticed the total absence of rope, the substitute with which the poles and beams were tied together seemed familiar to him, for they were vines. Taking his penknife, he cut a piece of this rope substitute. To his delight, he found that it was nothing else but landophia (a rubber variety) rubber vine, of a very good quality, full of rubber fibers in the local inhabitants built their huts with it, it must surely grow plentifully in the immediate neighborhood, Ydlibi thought.

As fitawrari Neure entered the hut, Ydlibi asked Neure about the art of hut-making, admiring his palatial residence. Ydlibi enquired where the wood was found, and full particulars were given to hum by the governor. Then Ydlibi came to learn that the vine which they instead of rope was found in abundance in the surrounding provinces and was used for hut and bridge making.

The tree was called gebbo in the local vernacular. Gebbo's importance was not fully known by the people who made use of it for building purposes. Later Ydlibi knew that the rubber of the area was of a superior quality to that of Bahr-el-Ghazal he decided to go ahead to Addis Ababa to explain the importance of rubber to the Emperor and obtain monopoly for his discovery in the name of the Kordofan Trading Company. Ydlibi was feverish in his haste to travel to Addis Ababa and obtain the monopoly, before the news of his discovery leaked out and someone else take the advantage of it.

After a long travel and discomfort, Ydlibi finally arrived Addis Ababa on July 187, 1905. With the help of the British legation in Addis Ababa, an audience was arranged for Ydlibi with menelik. Menelik enquired of Ydlibi's details of his journey. Once the ice was broken, Ydlibi explained to the emperor about his rubber discovery in the country, demonstrating with the rubber samples and photographs he brought with him. Menelik and people around him were surprised when they knew their country possesses such potential wealth of which they were totally ignorant until that time. Soon, without losing time, Emperor menelik issued a proclamation prohibiting the use of this valuable tree for house and bridge making.

Emperor Menelik asked Ydlibi what really he wants from him; Ydlibi said that as a reward for his discovery of rubber in the country, he asked the emperor to grant him a monopoly to work it for 10 years. Then menelik said, 'it is granted', and ydlibi was extremely satisfied and expressed his gratitude to the emperor before he took leave of him.

Some foreigners, who came to Ethiopia before Ydlibi, were searching for rubber themselves for several years past and made an attempt to grow it from seeds in a wrong part of the country without knowing that rubber grew in another part of the country.

After the acquisition of the monopoly, Ydlibi lost no time in opening rubber stations in many rubber growing areas of the country. By June 1914, on the last occasion that ydlibi visited his rubber plantations; there were no fewer than 120000 full grown rubber trees readily for tapping.

## 2. Potential areas for rubber plantation in Ethiopia

### A. Bebek area

Location : 651°30' - 7 11°00' North latitude

609km from Addis Ababa

Altitude: 800-1000masl

Average: Annual rainfall 1862.9mm

Rain days: 154 evenly distributed throughout the year

Annual sunshine hours: Not less than 2,000

Potential area: 78,000 hectares

The area is mainly covered by secondary and primary deciduous tropical forests similar to those found in the rubber (*Hevea Brasiliensis*) growing regions of the world.

The three locations have analyzed based on the required parameters for *Hevea Brasiliensis* plantation and it has rubber plantation because of the following main reasons.

- Its climatic conditions and altitude as well as other ecological conditions are either within the requirement of rubber plantation establishment or do not deviate much from the requirement.
- All necessary infrastructures for initial development are readily available in this area, where as such infrastructures are either missing or require huge investment in other locations.
- The availability of suitable potential land for rubber is much greater than other locations.
- The introduction of rubber trees into the region will check, to some extent, the depletion of forest resources of the remaining forest reserve of the country, replacing existing indigenous species by new ones and rubber industry would generate more employment opportunities and better incomes for the local people, reducing the risk of future degradation of forest in the long run.

## **B. Butuji and Toli Kobo area**

Location : 8° 07' - 8° 15' North latitude

35° 07' - 35° 15' East Longitude

650km from Addis Ababa

Altitude: 1000-1600masl

Max. temp.: 28.5<sup>0</sup>c

Min. temp.: 15.5<sup>0</sup>c

Annual rain fall: 1200-1500mm

Dry months: 4-6 months

The area has been identified mainly due to the existence of about 117 mature rubber trees (*Hevea brasiliensis*) of over 40 years of age. A test planting of two hectares was established in 1990 at Butuji and another test planting of 10 hectares at Toli kobo in 1995. Weather is severe around the area and infrastructure is poor.

## **C. Tepi area**

Location : 7° 07' - 7° 8' 30" North latitude

35° 13' 30" - 35° 20' 30" East Latitude

500km from Addis Ababa

Altitude: 750-1000masl

Annual rain fall: 2397.6mm

Rainy days: 151

Max. temp.: 30.96<sup>0</sup>c

Min. temp.: 15.31<sup>0</sup>c

Potential areas: 6000hectares

- Generally *Hevea brasiliensis* grows within 10° Latitude N and S it has been found to grow up to 18° and 24° Latitudes. In addition to the above, *Hevea brasiliensis* requires the following agro-climatic conditions.

Soil: sandy texture; acidic, whose PH value approach 6

Rainfall; annual rain fall 1500mm; within 120-180 rainy days

Humidity; level has a higher impact on the growth of rubber; 60 to 80% is suitable

Sunshine: Annual sunshine not less than 2000 hours

### 3. Production

**Table 1. Rubber production from 2006-2010**

No.	Year of planting	Area under rubber cultivation (0000 hectares)	Matured trees and expected matured trees(000 hectares)	Yield production expectation in tones	Estimation cost
1	2006	4367	4367	257.7	20,016,000.00
2	2007	726	726	502.9	40,232,000.00
3	2008	1168	1168	1219.5	97,560,000.00
4	2009	1729.22	1729.22	1450.21	116,016,800.00
5	2010	2344.86	2344.86	2204.974	176,397,920.00
<b>Total</b>				<b>5635.284</b>	<b>450,822,720.00</b>

Note: in 2004 E.C new matured rubber trees that will get in production 110 hectares

Matured rubber trees that give production before 21 hectares

**131 hectares**

The raw material for the sole tyre making factory (matador Addis Tyre Factory) comes from foreign sources. To produce natural rubber latex in the country, a rubber tree plantation scheme was established in the former Illubabor province.

Up now not much latex production has been achieved by the plantation. The use of different types of rubber products in Ethiopia will increase and this will necessitate the importation or domestic production of natural rubber latex. Tires are strategic products from the point of view of national security and economic independence. If imported supplies of red made tires or latex are disrupted by causes beyond the control of the national government, the whole economy and the capability of national defense will be adversely affected. This is because the movement of people and goods will be disrupted

**Table 2. Data that describes national nucleus project for rubber plantation and processing**

No	Items	Description
1	Location	Head office: Addis Ababa, Ethiopia Production site: Addis berhan 609km from Addis Ababa Production site: bebaka 591km from Addis Ababa Production site: Toli kobo 272km Addis berhan Production site: Toli kobo 650km Addis Ababa
2	Area(land size)	<ul style="list-style-type: none"> <li>• Area under rubber trees: Addis Berhan = 1,652.04ha Bebeka = 975ha</li> <li>• Expansion area: Addis berhan = 50ha Toli kobo = 4,500ha</li> </ul>
3	Date of establishment	April 1996 E.C
4	Types of products	Natural dry rubber sheet
5	Infrastructure, facilities and services	<ul style="list-style-type: none"> <li>• Road access about 48km from the plantation to Aman</li> <li>• Communication facilities, Telephone, Radio No</li> <li>• Electricity No</li> <li>• Water No</li> <li>• Guest house No</li> <li>• Warehouse yes</li> <li>• Clinic and amenities No</li> </ul>
6	Production volume	Dry rubber sheet 1.7 ton/ha at the peak time of trees latex flow
7	Production capacity	About 74 ton/year at this time but it will be increase in order to increasing plantation area
8	Number of permanent employee	120
9	Address of production sites	Tel. 0471129917 Fax. 0471129918 E-mail: <a href="mailto:rubber@ethionet.et">rubber@ethionet.et</a>
10	Potential areas/opportunities	About 84,000ha

## **Market**

In 2005 the imported value of rubber was 630 million birr in 2010 it reaches 2.42 billion. Given this, it is imperative that every attempt should be made to produce both the raw material and the final product of this strategic item here at home. Ethiopia imports some 3000 tons of different types of raw rubbers (costs Birr 60 million) annually. In contrast to this, however, the report of the National Project of Rubber Plantation and Processing (NPRPP) suggests the country's rubber import amounts to 6,000 tons annually.

One of the major government projects in the next five years, a rubber sheet processing factory will be built and begin production in the coming budget year. An international bid process for the implementation of the processing plant will be underway soon. Rubber, which is major source for tyre production, development is one of the major projects that has been scheduled to be undertaken during the government's five year Growth and Transformation Plan (GTP). For the sector development, which will be carried out by the state under the Privatization and Public Supervisory Agency (PPESA), pre conditions are a course of action to install a rubber sheet processing plant at one of the rubber tree plantation areas in the southwest of the country. According to sources at the Rubber Plantation and Processing, every pre condition to install the dry rubber sheet processing factory, including the feasibility studies have been concluded. "International bid documents have been finalized and will be publicized in the near future to invite international firms for the erection of a processing plant based on the schedule," as sources said.

In the past few years the government has begun showing its interest in participating in rubber development. It has made different feasibility studies by itself and foreign firms in the selected climate areas that are suitable for the sector investment, but the project has not yet been applied by the government's capacity because it demands a huge amount of investment.

The government has invited any international and local investor interested in being part of the joint venture or partial rubber investment. The plan is for the investment to be conducted on the west and south western side of the country.



**Table 3. Rubber import from 2005-2010**

**Qt in Tons. Value is in ,000 birr**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Quantity	29494	32057	29354	36389	47225	44555
Value	630272	769899	894069	1260143	1929506	242449

**Source:-** Revenue and customs Authority 2011.

## **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. 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 cost of rural land in two regional states is shown below:

- Oromia.....US\$ 4.02 – 7.71 per hectare per year
- Southern Nation, Nationalities and Peoples' Region.....US\$ 2.17-6.68 per hectare per year
- Gambella ..... US\$ 2.37

Concerning incentives related to land, the Oromia regional state provided land freely for four years southern nations; Nationalities and Peoples' regional state also allow three to twenty years grace period for long term crops. :

### 7.2 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\$ 0.023per KWh

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\* 1US\$ = Birr 12.67

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

**b) Telephone**

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

**c) Water (in Addis Ababa)**

- Residential
  - 0-7 m<sup>3</sup>.....US\$ 0.01 per m<sup>3</sup>
  - 7-20 m<sup>3</sup>.....US\$ 0.18 per m<sup>3</sup>
  - above 20 m<sup>3</sup> .....US\$ 0.21 per m<sup>3</sup>
- Non-residential..... US\$ 0.21 per m<sup>3</sup>

**8. 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%

## **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.....» 1 hour
- registration of technology transfer agreement.....» 2 hours
- registration of export oriented non-equity based  
foreign collaboration.....» 1 hour
- facilitation of the acquisition of land and utilities .

Generally, the conducive agro – climatic conditions, the availability of abundant and cheap labour force, the growing world demand for rubber and the favourable investment climate existing in the Country justify commercially attractive investments in the production and export rubber.