Creating New Productive Capacity for the Leather Industry
National Leather Roadmap

November, 2018
Acknowledgement

This Strategy was commissioned by the Ministry of Trade and Industry (MOTI) and Ethiopian Investment Commission (EIC), in coordination with the Ethiopian Leather Industry Development Institute (ELIDI).

We wish to thank various institutions for their valuable contribution to this document; Ethiopian Leather Industry Association (ELIA), for their valuable comments and technical support; Enterprise Partners (EP) for their help in facilitating and providing useful and constructive recommendations on this project.

Special thanks goes to the Department of International Development (DFID), for financing this project.
Data Usage Disclaimer

The data on this publication should not be regarded as complete (data is from 2018). It is the reader's responsibility to check that the data is accurate and applies to the current situation of the leather industry.
The leather sector is one of the priority sectors identified by the government, strictly following the value addition policy that the government has put in place for the manufacturing sector as a whole. Following the various value addition policy changes over the years, the sectors’ competitiveness has experienced variable growth and decline periods, culminating in export value earnings not reaching targets. Such significant policy changes require time for the industry, as a whole, to fully adopt and adapt to, from all facets of the leather business and its value chain.

Consequently, the poor export performance has necessitated in relevant government bodies (MOTI/LIDI, EIC) in partnership with Enterprise Partners to agree to explore the leather sector with a view to understanding its current global market position and the challenges it currently faces, ultimately generating recommendations for bold measures towards improving its competitiveness and overall performance.

It is essential to understand and embrace the sectors’ performance against the evolving drivers dictated by the global leather market. Of particular note is an increased impetus relating to environmental aspects, addressing the scope of sustainability and understanding modern social compliance pressures. Accordingly, the sector must look to significantly advance, becoming more efficient and embracing environmental based criteria. Leather chemical manufacturers are a major source of assistance, and continue to develop cleaner technologies that tackle environmental pressures.

Ethiopian manufacturers, in general, have not evolved, nor fully understood, the increased quality assurance and compliance requirements of the global market. The government has opened up the sector to foreign investment (starting 2009), which has attracted more than fifteen FDI tanneries, yet only four footwear manufacturing factories.

The challenges faced are at both the macro/structural and micro level (essentially factory level), including severe shortages of accessible foreign currency, continued raw material (RHS) quality deterioration, weak modern production management systems and the absence of an efficiently functioning ecosystem (input supply market, logistics, workforce development, etc).

If captured correctly, there is an immense opportunity that the Ethiopian leather sector can tap into, with key points noted:

- Shift sectors’ positioning in the global market, through better understanding of global requirements and customer needs
- Target and improve raw material quality and availability, recognizing it is an essential primary input
- Advance and streamline processes and operations to realize overall improved profitability and efficiency
- Embrace and adopt environmental, sustainability and social standards that are desired by export markets
- Attract and incentivize good quality FDIs whom are focused on final product manufacturing to further develop the entire leather value chain
- Overhaul support institutions to ensure they offer genuine, real-time knowledge and assistance to the industry as a whole

The reality is simply that to implement all of these changes shall require commitment, investment and an enabling-environment for business to be forged within, with said ecosystem functioning to create positive and progressive interactions that both encourage and facilitate manufacturing.

Coordination, structure and collaboration is critical in order to deliver on the set of recommendations proposed in this roadmap, where improvements need to be addressed and introduced by all stakeholders within the industry. The value chain is only as strong as its weakest link, and issues can ultimately wreak havoc causing lost profitability and revenue generation.

Benchmarked countries have put in place the required attributes required to supply the global market, and these efforts are yielding true business value to all stakeholders. But they are also constantly evolving and adapting to the ever-changing landscape of trade around the globe. Business sectors must not view this as a challenge, but more of an opportunity for success.

It is apparent that bold and drastic reforms are required to incentivize and reboot the industry – it is extremely important to be mindful that industries need time to adapt to significant changes and requirements needed to position itself correctly, and with confidence, in the global market. Consequently, such changes introduced require adequate time to become fully effective and in order to sustain the gain they will bring, building a reliable and robust business platform.
Creating New Productive Capacity for the Leather Industry

National Leather Roadmap

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The approach consisted of four stages designed to identify key challenges and design results-driven interventions.

**Activities in defining scope of work-4 key tasks**

1. Define market strategy
   - Form relevant stakeholder group
   - Develop vision for roadmap
   - Agree on criteria by which to carry out gap assessment

2. Identify bottlenecks and gaps
   - Carry out current statement assessment of leather industry from RHS trading to finished leather
   - Carry out gap assessment
   - Align on findings with stakeholders

3. Prioritize gaps
   - Generate gap prioritization criteria
   - Identify priority gaps and bottlenecks
   - Align with stakeholders

4. Design priority recommendations
   - Develop recommendations as part of the roadmap
   - Identify action owners
   - Develop initial implementation time-line

**The project team was structured to ensure regular communication and alignment throughout the entire process**

- **Strategic Steering Committee (SSC)**
  - Ministry of Trade and Industry (MoTI)
  - Leather Industry Development Institute (LIDI)
  - Ethiopian Leather Industry Association (ELIA)
  - Ethiopian Investment Commission (EIC)
  - Enterprise Partners (EP)

- **Core Technical Committee (CTC)**
  - Project Coordinator
  - Ministry of Trade and Industry (MoTI)
  - Leather Industry Development Institute (LIDI)
  - Ethiopian Investment Commission (EIC)
  - Enterprise Partners (EP)

- **International and Local Experts/Consultants**
  - Value Chain Expert 1 (Local)
  - Value Chain Expert 2 (International): Abattoir to Tannery
  - Value Chain Expert 3 (International): Tannery to Finished Products
  - Environment and Sustainable Production Expert (International)

The objective of the roadmap within this document is to develop leather export market by identifying priority bottlenecks to enhance the productive capacity of the industry.
The key objectives of the assignment are to accurately identify weaknesses and competitive advantages; develop actionable recommendations and develop a world-class export platform.

**Key Assessment Areas**

**Market led Value Chain Assessment**
- Review of key recommendations from relevant strategies/documents
- Identify what was tried, worked, showed good result but couldn’t be scaled and why
- Identify markets to consider as part of the marketing strategy
- Consumer/market led products identification
- Input supply chain ecosystem
- Green economy/cleaner production system considerations and recommendations

**Investment Promotion Guide**
- Identification and analysis of areas where FDIs should focus and where they should closely link with local manufacturers
- Identification of product categories, buyers and manufacturers that Ethiopia should prioritize for manufacturing, investment and trade
- Identification and prioritization of key partner countries and companies to target for investment promotion
- Identification of companies through key investment factors including Ethiopia’s competitive advantage and realities and strategy to secure them

**Infrastructure and Incentives**
- Analysis and recommendations on required infrastructure and institutions for attracting FDIs
- Identify and quantify the incentives that may be necessary to encourage foreign companies to subcontract production to Ethiopian factories
- Regulatory framework analysis and benchmarking other compatible countries to recommend any alterations in the regulations that Ethiopia should consider incorporating
- Discussion and analysis of export and import efficiencies with various government bodies
- Identify and quantify the incentives that may be necessary to encourage foreign companies to subcontract production to Ethiopia
The following sources were consulted and activities carried out to develop findings/insights included in this report

**Over fifty documents reviewed including**
- Ethiopia Leather Sector Value Chain Strategy (2016-2020)
- Ethiopian Industrial Development Strategic Plan (2013-2025)
- Leather Master Plan
- UNIDO, MOI and LIDI, Modjo Leather City (MLC): An Inclusive and Sustainable Leather District, 2015
- Livestock Master-plan
- Report on Quantity and Quality of Finished Leather Required by Ethiopian Footwear Industries

**Interviews and primary sources consulted**
- LIDI (various department from technical, production, marketing, leadership)
- MOI
- Finished leather products manufacturers (>20 footwear, bags and garments)
- Tanneries (>10 site visits and direct interviews)
- Finance institutions (Domestic banks)
- Customs and logistics representatives
- Accessories and components manufacturers
- Chemical companies (bonded warehouse users and direct agents)
- ELIA
- RHS traders
- Animal fattening operators
- Abattoirs (domestic and export)
- Development partners involved in different parts of the value chain (EP, GIZ, EU, WB, JICA)

**Stakeholder consultations**
- Strategic Steering Committee (monthly meetings to ensure strategic direction alignment)
- Core Technical Committee (Weekly meetings to provide more direct support on the report and ensure alignment to respective stakeholders)
- Current State Assessment-Gaps Session (tanneries, chemical companies, footwear factories, garments)
- Current State Assessment Findings Validation Session (tanneries, chemical companies, footwear factories, RHS traders, financing companies, logistics companies)
- Draft Recommendations Validation Session
- Final Recommendations Presentation
In addition, one learning trip was conducted to India to draw on experience of supplying global export markets.

<table>
<thead>
<tr>
<th>No.</th>
<th>Institution</th>
<th>Sector/Sub-sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Central Leather Research Institute (CLRI)</td>
<td>Leather</td>
</tr>
<tr>
<td>2</td>
<td>National Institute of Fashion Technology (NIFT)</td>
<td>Leather Fashion Training</td>
</tr>
<tr>
<td>3</td>
<td>Federation of Indian Export Organization (FIEO)</td>
<td>Export Promotion</td>
</tr>
<tr>
<td>4</td>
<td>Council For Leather Exports (CLE)</td>
<td>Sector Council</td>
</tr>
<tr>
<td>5</td>
<td>Footwear Design and Development Institute (FDDI)</td>
<td>Training and research in Footwear</td>
</tr>
<tr>
<td>6</td>
<td>The Central Footwear Training Institute (CFTI)</td>
<td>Footwear</td>
</tr>
<tr>
<td>7</td>
<td>India Trade Promotion Organization (ITPO)</td>
<td>Trade fare</td>
</tr>
<tr>
<td>8</td>
<td>FARIDA Shoes</td>
<td>Footwear</td>
</tr>
<tr>
<td>9</td>
<td>Bharth Enterprises</td>
<td>Tannery</td>
</tr>
<tr>
<td>10</td>
<td>Ranipet Tannery Effluent Treatment Plant</td>
<td>Common Effluent Treatment Plant</td>
</tr>
<tr>
<td>11</td>
<td>Bachi Shoes India Pvt Ltd</td>
<td>Footwear</td>
</tr>
<tr>
<td>12</td>
<td>Suolifico Linea Italia India Pvt. Ltd.</td>
<td>Souls and Molds</td>
</tr>
<tr>
<td>13</td>
<td>Apollo Group</td>
<td>Leather goods</td>
</tr>
<tr>
<td>14</td>
<td>AV Thomas</td>
<td>Leather goods (Wallets)</td>
</tr>
<tr>
<td>15</td>
<td>KH Exports India Private Limited - Glove and Belts Division</td>
<td>Leather goods (Glove and Belts)</td>
</tr>
<tr>
<td>16</td>
<td>Association of Footwear Components and Machinery Manufacturers of India (AFCAMMI)</td>
<td>Finished Leather</td>
</tr>
<tr>
<td>17</td>
<td>Indian Finished Leather Manufacturers &amp; Exporters Association (IFLMEA)</td>
<td>Footwear</td>
</tr>
<tr>
<td>18</td>
<td>Indian Shoe Federation</td>
<td>All leather (Tannery to Raw hide and skin etc...)</td>
</tr>
<tr>
<td>19</td>
<td>The All India Skin and Hide Trainers and Merchant Association (AISHTMA)</td>
<td>Across industries</td>
</tr>
<tr>
<td>20</td>
<td>Confederation of Indian Industry (CII)</td>
<td></td>
</tr>
</tbody>
</table>

Note: Due to time shortages, the team was not able to travel to the additional 2 countries as initially planned. As a result, desktop reviews were carried out in order to benchmark agreed upon focus areas and parameters.
The following sources were consulted and activities carried out to develop findings/insights included in this report

Scope of work
- Value chain limitation—from abattoir to end consumer; additional work needs to be carried out in the handling of livestock and related scope. In order for the sector to experience the initially discussed, strong growth considerable work has to be carried out at the animal husbandry and handling stage.
- Nature of document as a roadmap requires that additional work be carried out by stakeholders in order to develop budget estimations and agree on time-line. Related figures (if any) contained in this document are estimations based on reasonable assumptions and leading practices. It is assumed that owning bodies, will develop relevant action plans aligned to the agreed upon findings once the document has been accepted as final.

Company specific data
1. Although considered beneficial to the study, the team was not able to obtain certain company specific data. These include production cost breakdown, salary figures, realistic production figures. Where data is severely lacking the Consultants and Experts that make up the study team have worked with what was available to them plus expert assumptions.
- Data related to environmental assessment was perceived to be a very sensitive and highly confidential issue. Participating companies have expressed concern in submitting such data. As a result, most of the information filled appeared scattered and unrealistic. The Consultants and Experts relied on anonymous data provided from LIDI.
- The study team asserts that company data should be taken as indicative. Additional and in-depth studies or validation data by relevant document owner is recommended prior to making any decisions.

Quality of data
- Consultants and Experts of the study team relied heavily on published reports and data provided by various stakeholders (government institutions, development partners, private companies). Under the current scope of work, it is not the responsibility of the study team to validate such data and reports beyond cross-checking against existing documents and data sets. Furthermore, the study team assumes data is complete once received.

Recommendations
- The recommendations enclosed have been developed in order to address the key questions that have driven the content of the document. While developing these recommendations, the team has found certain themes to be prevalent throughout a series of strategies and documents developed by various development partners and stakeholders. Where necessary some of the recommendations in this document build on existing ones. The team asserts that this may lead to increased collaboration, optimization of budgets.
- As per the original scope of work, the recommendation and roadmap framework has been developed with sufficient level of specificity to allow the receiving and implementing bodies and partners to capitalize upon.

Success of recommendations and targets
- The enclosed document contains findings based on various primary and secondary resources. Throughout the document development, relevant stakeholders have been consulted to ensure alignment on key findings and recommendations, thereby creating buy-in. Following finalization of this document, it shall not be the responsibility of the team that has prepared the document to ensure successful outcome of the recommendations or targets.
- The final owners of the document are EIC and MOTI.
Acronyms

- African Development Bank (AFDB)
- Commercial Bank of Ethiopia (CBE)
- Common Effluent Treatment Plan (CETP)
- Common Market for eastern and Southern Africa (COMESA)
- Core Technical Committee (CTC)
- Customer Relationship Management (CRM)
- Dan Church Aid (DCA)
- Enterprise Partners (EP)
- Environmental Protection Agency (EPA)
- Ethiopian Birr (ETB)
- Ethiopian Industrial Inputs Development Enterprise (EIIDE)
- Ethiopian Investment Commission (EIC)
- Ethiopian Leather Industry Association (ELIA)
- Ethiopian Revenue and Customs Authority (ERCA)
- Footwear and Leather Products (FP)
- Foreign Direct Investment (FDI)
- Foreign Exchange (FOREX)
- Government of Ethiopia (GOE)
- Gross Domestic Product (GDP)
- Growth and Transformation Plan (GTP)
- Industrial Parks (IPs)
- Industrial Parks Development Corporation (IPDC)
- Institute of Creative Leather Technologies (ICLT)
- International Finance Corporation (IFC)
- International Organization for Standardization (ISO)
- Leather Industry Development Institute (LIDI)
- Leather Working Group (LWG)
- Letter of Credit (LC)
- Ministry of Trade and Industry (MOTI)
- Ministry of Agriculture and Livestock Resources (MOALR)
- National Animal Health Diagnostic and Investigation Center (NAHDIC)
- National Veterinary Institute (NVI)
- National Institute of Fashion Technology (NIFT)
- Product Development Center (PDC)
- Public-Private Partnership (PPP)
- Purchasing Power Parity (PPP)
- Quality Management System (QMS)
- Raw Hides and Skins (RHS)
- Registration, Evaluation, Authorization and Restriction of Chemicals (REACH)
- Restricted substance Lists (RSL)
- Shoe and Allied Trade Research Association (SATRA)
- Standard Operating Procedure (SOP)
- Strategic Steering Committee (SSC)
- Total Quality Management (TQM)
- United Nations Development Program (UNDP)
- United States Agency for International Development (USAID)
- United States Dollar (USD)
- Value Chain (VC)
- Zero Discharge of Hazardous Chemicals (ZDHC)
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Although highly complex in nature and requirements, the leather value chain can broadly be classified into four major segments:

**Input Supplies**
- Raw hides and skin suppliers
- Chemicals suppliers
- Accessories and inputs

**Tanning**
- Tanners selling finished leather to other value add players

**Finished Products**
- Footwear
- Gloves
- Leather goods and garments
- Other specialized products

**End Customer**
- Wide range of customer segments defined by preferences and prices
- Wide distribution channels

*Note: The figure above presents a high level depiction of the value chain. It does not attempt to summarize all the activities which take place in each segment. Source: Team analysis, sector experts knowledge*
China and Italy remain main players in the production of leather, each with starkly different approaches.

### Main players in leather production, 2014-2016

<table>
<thead>
<tr>
<th>Leather Sector Value in Billion USD</th>
<th>Turkey</th>
<th>S. Korea</th>
<th>India</th>
<th>Brazil</th>
<th>Italy</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than 0.75 Billion USD</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>More than 1.00 Billion USD</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>More than 1.50 Billion USD</td>
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<td></td>
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<tr>
<td>More than 2.50 Billion USD</td>
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<tr>
<td>More than 5.00 Billion USD</td>
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</tbody>
</table>

- Italy and China have industry value of over USD 5 billion each with starkly different approaches. Italy has significantly lower production but commands higher pricing and is known to bigger brands.

- Creation of a cache (e.g. “made in Italy”) that is built around consistent production processes, focus on quality, pricing etc. can provide edge against growing competition.

- High value producers import raw hides and semi processed leather before finishing and adding value. It is known that Ethiopia has put a restrictive export tax on semi-processed leather which took out this potential market stream.

Source: UNIC Italian tanners association - 2017
In the past five years footwear, although the largest contributor to the industry, has shown a steady decline of ~1%, with specialized sectors registering growth.
Asia is the world’s footwear production center with China, India and Vietnam ranked top three

- China is by far the largest footwear manufacturing hub the world producing ~ 250% more than the sum of the countries ranked between 2nd and 6th.
- However, China’s production has been declining slightly (1%) annually between 2013 and 2017. Production rates have been increasing steadily Indonesia, Vietnam, Bangladesh and Turkey at 12%, 9%, 9% and 7% respectively.
- India’s production rate has been increasing relatively slower at 4% on average while Brazil’s production has been stable over the five year period.

The trends indicate that production has been shifting even with in Asia from China to Bangladesh and Vietnam in the last five years.

Source: Statista 2018
The global footwear export market value is worth ~USD 144 billion with leather

Source: ITC Calculations based on UN COMTRADE and ITC statistics; all growth rates are CAGR

### Top 5 Exporter Performance
- Top 5 exported ~92% of total value
- China is the strongest exporter (34% in 2017), although dropping by 4% each year
- Vietnam, the second largest exporter, generates 14% of the market and has been growing at 20% each year

### Global Footwear Exports, 2013-2017

<table>
<thead>
<tr>
<th>Year</th>
<th>USD billions</th>
<th>Share of total value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>129</td>
<td>62%</td>
</tr>
<tr>
<td>2014</td>
<td>142</td>
<td>64%</td>
</tr>
<tr>
<td>2015</td>
<td>134</td>
<td>66%</td>
</tr>
<tr>
<td>2016</td>
<td>130</td>
<td>68%</td>
</tr>
<tr>
<td>2017</td>
<td>144</td>
<td>70%</td>
</tr>
</tbody>
</table>

### Detailed Footwear Export Performance, 2013-2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Synthetic Footwear</th>
<th>Leather Footwear</th>
<th>Textile Footwear</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>13%</td>
<td>43%</td>
<td>27%</td>
<td>13%</td>
</tr>
<tr>
<td>2014</td>
<td>12%</td>
<td>41%</td>
<td>28%</td>
<td>17%</td>
</tr>
<tr>
<td>2015</td>
<td>11%</td>
<td>39%</td>
<td>28%</td>
<td>19%</td>
</tr>
<tr>
<td>2016</td>
<td>11%</td>
<td>37%</td>
<td>28%</td>
<td>22%</td>
</tr>
<tr>
<td>2017</td>
<td>10%</td>
<td>36%</td>
<td>26%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Source: ITC Calculations based on UN COMTRADE and ITC statistics; all growth rates are CAGR
Across major categories of footwear, China, Vietnam, India and Italy are leading players and supply at least 50% of all products in the global market.

### Global exports of textile footwear (USD billions)

- **Year on year sales showed a 4% drop in total export value in this category.**
- China dominates this category with 60% of market share. One reason is the investment in the continuing development of improved synthetic upper materials.
- The major customers in this category are from poorer nations and also low cost fashion shoes for ladies.
- EU countries still feature 6 out of 10 exporting nations in this category. Reasons:
  - High level of innovation on these products
  - Top Brands positioned in these countries for alternative upper material for non textile Sports shoes
  - Rapid prototyping used extensively
  - Speed to market
  - China (58%), Vietnam (10%), Italy (4%), rest of supply (21%)

### Global exports of leather footwear (USD billions)

- Declining growth trend with slight increase between 2016 and 2017
- EU nations, despite high operating and labour costs, make up 6 out of 10 top exporting nations for leather shoes. Main reasons are:
  - High level of design innovation is present.
  - Top Quality is demanded by buyers, top quality available in EU
  - Not all the products are price sensitive.
  - Top value Brands are positioned in these countries.
  - Rapid prototyping through the investment in Cad Cam systems.
  - Faster and cheaper Speed to market from EU producer to EU buyer.
  - Re-exporting nations are based in Europe.
  - Top 3 countries captured 45% of total export values in 2017 with products ranging from mass to high end.
- LDC countries have shown tremendous increase in export value. In addition to strong government support systems, both countries offer low labor costs and plenty of labor.

### Global exports of synthetic footwear (USD billions)

- Annual growth of ~16% driven by popularity of sports footwear across all generations, technical improvements, heavy marketing by brands.
- Vietnam picked up most of the increased sales with country growth of 65% by value. This is a massive increase in one year and follows the country's move into employing this specific type of technology.
- Top 3 suppliers: China (34%), Vietnam (24%) and Italy (8%)

Source: ITC Calculations based on UN COMTRADE and ITC statistics; all growth rates are CAGR
The footwear import market value is worth ~USD 135 billion with leather footwear, having experienced rise only in the last 2 years.

**Global Footwear Imports (USD billions), 2013-2017**

- World Value
- Top 5

**USD billions**

- 2013: 124
- 2014: 132
- 2015: 128
- 2016: 128
- 2017: 135

**Share of total imports**

- 2013: 48%
- 2014: 47%
- 2015: 46%
- 2016: 45%
- 2017: 44%

**Detailed footwear import performance, 2013-2017**

- Top 5 Importers Performance
  - USA imports 55% of all footwear, although expected to decline slightly based on 5 year performance (~1% decline)
  - Germany, the second largest importer displays steady growth year to year (~4%)

- Slowness in growth indicates difficulty in gaining new marketplace

**Top 5 Importers Performance**

- USA: 55%
- Germany: 9%
- France: 6%
- United Kingdom: 5%
- Italy: 5%

- Rest of Supply: 20%

**Source:** ITC Calculations based on UN COMTRADE and ITC statistics; all growth rates are CAGR

**Billion Value in 2017**

- $135 billion

**5 Years CAGR**

- 2%
Similarly, thematic area recommendations have been designed

- Imports have been falling sharply until 2016, followed by slight increase in 2017
- Top 5 importers import 42% of total textile footwear
- 52% is imported by the rest of the world indicating a larger customer base
- Top 3 importers (2017)
  - United States (20%)
  - Germany (8%)
  - Japan (5%)

- Import of leather footwear has been declining at a steady rate of 3% per year
- Top 3 importers (2017)
  - United States (21%) has been decreasing its imports by 2% each year
  - Germany (9%), contrary to China, has imports increasing at 2% per year
  - France (7%) shows nominal annual increase of 1%
- The largest 10 nations import approximately 66% of total leather footwear of which EU nations make up 36%. This cannot be considered a likely market for Ethiopia

- Of the 3 footwear segments, synthetic footwear has been growing at a strong annual rate of 14% each year
- Consumers of synthetic footwear are likely price sensitive and seek product features which are considered practical
- This creates a strong competition for leather shoes, especially in a growing industry in Ethiopia
- Top 3 importers generated 36% of the value-United States (22%), Germany (8%), France (6%)

Source: ITC Calculations based on UN COMTRADE and ITC statistics; all growth rates are CAGR
More than 60% of leather footwear produced by Ethiopia was imported by the United States (2017). This was largely supplied by a single manufacturer.

Top export destinations for Ethiopia’s leather footwear, 2017

- **United States of America**: 63%
- **China**: 16%
- **Canada**: 6%
- **Kenya**: 7%
- **Hong Kong, China**: 2%
- **Rest of importers**: 6%

**Top 5 Importers Performance**
- ~80% of footwear exported by Ethiopian manufacturers is imported by 2 countries
- The USA imports >60% of footwear, most likely driven by export activity of Huajian.
- China imports ~16% of footwear from Ethiopia and can possibly become a focus market having grown at 105% in 5 years.

Global Footwear Imports (USD billions), 2013-2017

- **2013**: $31
- **2014**: $35
- **2015**: $35
- **2016**: $40
- **2017**: $49

**Million Value in 2017**: $49

**5 Years CAGR**: 13%

Source: ITC Calculations based on UN COMTRADE and ITC statistics; all growth rates are CAGR
94% of goods produced by Ethiopia was imported by five countries, showing a very narrow market base for leather products.

**Leather goods (excluding leather footwear) exports, 2013-2017**

- **$78 Billion Value in 2017**
- **1% Per Year Growth Rate**

**Top 5 Exporters Performance**
- Top 5 exported 83% of total value
- China remains largest player (37%), decreasing at 2% each year
- Italy has maintained a steady 12% market share
- France export the 3rd largest share (10%), growing at 1% each year

**Source:** ITC Calculations based on UN COMTRADE and ITC statistics; all growth rates are CAGR

**Leather Goods (excluding leather footwear) Import, 2013-2017**

- **$75 Billion Value in 2017**
- **2% Per Year Growth Rate**

**Top 5 Importers Performance**
- Top 5 imported 95% of total value
- United States remains largest importer (~18%), followed by Japan (8%)
- Most of imported nations are importing at an increasing rate

**Source:** ITC Calculations based on UN COMTRADE and ITC statistics; all growth rates are CAGR
94% of goods produced by Ethiopia was imported by five countries, showing a very narrow market base for leather products.

**Import of Ethiopia's Leather Goods (excluding leather footwear) in million USD**

<table>
<thead>
<tr>
<th>Year</th>
<th>Million Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>0.4</td>
</tr>
<tr>
<td>2014</td>
<td>1</td>
</tr>
<tr>
<td>2015</td>
<td>2</td>
</tr>
<tr>
<td>2016</td>
<td>2</td>
</tr>
<tr>
<td>2017</td>
<td>3</td>
</tr>
</tbody>
</table>

**Top export destinations for Ethiopia's leather goods (excluding leather footwear), 2017**

- **United States of America** (73%), growing at 1% each year
- **Germany** (12%), declining import by 4% each year
- **China** (5%)
- **United Kingdom** (3%)
- **Sweden** (2%)
- **Rest of Imports** (5%)

**Million Value in 2017**: $3

**5 Years CAGR**: 5%

Source: ITC Calculations based on UN COMTRADE and ITC statistics; all growth rates are CAGR
Both exports and imports of RHS and leather are showing strong and steady decline.

**Leather goods (excluding leather footwear) exports, 2013-2017**

- **Top 5 Exporters Performance**
  - Top 5 exported 45% of total value
  - Italy remains largest player (17%), growing at 2% each year
  - United States has maintained a steady 10% market share
  - Brazil export the 3rd largest share (7%), growing at 1% each year

- **Leather Goods (excluding leather footwear) Import, 2013-2017**

- **Top 5 Importers Performance**
  - Top 5 imported 65% of total value
  - China remains largest importer (~21%), followed by Italy (13%) and Hong Kong (6%)
  - Most of imported nations are importing at a decreasing rate

**Source:** ITC Calculations based on UN COMTRADE and ITC statistics; all growth rates are CAGR
China is the dominant importer of finished leather from Ethiopia

Export of Ethiopia’s finished leather (in million USD)

Top export destinations for Ethiopia’s finished leather, 2017

- Top 5 Importers Performance 2017
  - 87% of finished leather was imported by China. If current trends continue, China’s import is expected to grow at 25%
  - Hong Kong (16%), declining at 18% each year

Source: ITC Calculations based on UN COMTRADE and ITC statistics; all growth rates are CAGR
Creating New Productive Capacity for the Leather Industry

National Leather Roadmap

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The most commonly used distribution channel is the ‘agent-model’, most of whom originate from the Asia region

<table>
<thead>
<tr>
<th>Channel</th>
<th>High-level Overview of Operating Mechanism</th>
</tr>
</thead>
</table>
| Agent, trader, broker    | • Most common method of distribution  
                          | • Products typically sold to Asian or European agents who sell to retailers and wholesalers and then to end user  
                          | • Trader assumes responsibility for selecting manufacturers and supervising production process  
                          | • Payment is typically fixed fee or commission based  
                          | • Indirect channel: does not allow the seller to reach end consumer  
                          | • Largest players come from China/Hong Kong, Taiwan, South Korea and Japan |
| Wholesalers, distributor | • First point of contact  
                          | • Direct sales to retailers  
                          | • Assumes responsibility for products purchased from seller  
                          | • Emphasis placed on converting products into collections or on the whole production process  
                          | • Players provide complete marketing service |
| Direct contact with      | • Growing mode of sales  
                          | • Driven largely by need for establishing vertical integration and demand for faster and more flexible product delivery |
| buyers                   |                                                                                                                  |
| Direct sales to end      | • E-commerce platforms largest method of reaching end consumer directly  
                          | • Risk area would be high costs of returns  
                          | • Amazon and eBay take the lead as largest platforms |
| users                    |                                                                                                                  |
In addition to selecting the most appropriate export channel, understanding of factors driving demand in each segment is imperative.

**Interplay of factors defining movements in trade of leather and leather products**

Factors driving tanning activities

- Consumer protection and sustainable production

Demand drivers for Finished products

**Considerations for leather and leather products manufacturers**

- Narrow down reasonable target market
- Assess internal capabilities
- Develop competitive products
- Build a forward-looking strategy to improve market position
- Build close interactions with end users to define rapid and customized responses
- Understand and/or identify additional opportunities in the leather supply chain

Factors defining each bucket of demand drivers is elaborated upon in the next section

Source: Sector expert consultation
In order to be able to compete in the global market, the following essential criteria must be followed:

- Strong technical competency
- High level management skills
- Strong discipline relating to environmental matters
- Constant process improvement and NPD capability
- Consistent raw material supply
- Total quality management & continuous improvement philosophy
- Effective sales and marketing capability
- Strong working capital
- Range of profitable products across full raw material inventory
- Consistency of production to specification
- Excellent communication channels and logistics capability
- Strong working capital
- Highly trained workers

Source: Sector expert consultation
In order to be able to compete in the global market, the following essential criteria must be followed:

- Corporate social responsibility
- Excellent communication channels and correct culture
- Competitive pricing
- Conformity to specifications
- Total quality management
- Financial confidence in supplier and excellent service
- Short lead times and fast reaction for new product development

Source: Sector expert consultation
Numerous global environmental and customer protection regulations have evolved in the global market which will only increase in their stringency

<table>
<thead>
<tr>
<th>Global standards and Best Applied Technologies (BAT) considered</th>
<th>How does this impact Ethiopia?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Leather Working Group</strong></td>
<td>• Difficulty in becoming a strong global player if non compliant</td>
</tr>
<tr>
<td>• Develops and maintains protocol assessing environmental compliance and performance capabilities of manufacturers</td>
<td>• Businesses not able to clearly understand production processes and alignment efforts towards global requirements</td>
</tr>
<tr>
<td>• Made up of member brands, retailers, product manufacturers, chemical suppliers and technical experts</td>
<td></td>
</tr>
<tr>
<td>• Environmental stewardship protocol for the leather sector</td>
<td></td>
</tr>
<tr>
<td><strong>Restricted Substance List (RSL)</strong></td>
<td>• Products with substances above allocated RSL levels cannot access markets</td>
</tr>
<tr>
<td>• Chemical substances controlled by national or regional legislation, (multinational) brands and/or ecolabel due to their proven negative impact on human health and the ecosystem</td>
<td>• “Polluter pays” principle will take effect which means that high cost transferred back to the seller</td>
</tr>
<tr>
<td>• Globally in place for the last two decades</td>
<td></td>
</tr>
<tr>
<td><strong>Zero Discharge of Harmful Chemicals (ZDHC)</strong></td>
<td>• Difficulty in becoming a global player if non-compliant</td>
</tr>
<tr>
<td>• Established in 2011 by Greenpeace to address high toxicity levels in water</td>
<td></td>
</tr>
<tr>
<td>• Regulations of chemicals used within production</td>
<td></td>
</tr>
<tr>
<td>• Gaining high momentum globally</td>
<td></td>
</tr>
<tr>
<td><strong>REACH</strong></td>
<td>• Inability to comply means limited access to the EU market</td>
</tr>
<tr>
<td>• Registration requirement to European Chemicals Agency to fully list and define all substances used in leather and leather products</td>
<td>• Will affect downstream users such as finished products manufacturers</td>
</tr>
<tr>
<td>• Way to manage risk posed by chemicals</td>
<td></td>
</tr>
</tbody>
</table>

Ethiopia is very well positioned to set up an environmentally compliant leather industry and avoid costly pitfalls experienced by other nations early on!
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Asia finishes the majority of leather in the world which is largely imported from different parts of the world.

**Major Producing Regions**
- Asian countries contribute between 35% and 67% of total bovine and sheep & goat leather production, respectively
- Europe still maintains a strong production base
- South America (Brazil and Argentina) are known to supply both semi-finished and finished leather

**Key drivers of production**
- Cheap labor and resources
- Tanning capabilities
- Strength of supply chain (ease of logistics)
- Final product manufacturers

**Outlook**
- Shifts in raw material sourcing will drive movement and relocation of finished goods manufacturers
- Asian countries, who once offered cost advantages are becoming increasingly expensive, indicating a search for cheaper resources
- Manufacturers seek to retain higher control on entire supply chain to increase flexibility and speed of responsiveness as well as to become cost competitive.

**Global Leather Production Share (2017)**

Source: SUNIC 2017, ITC Trade Map, various years
Asia finishes the majority of leather in the world which is largely imported from different parts of the world.

**Global Leather Production**

- Production of bovine leather grew at 1% between 2010 and 2014. Ethiopia had a slightly stronger growth rate at 2%.
- On the other hand, the growth rate of sheep and goat leather is negative, whereas Ethiopia's production grew by 4% in the same five-year period. This is in line with its current strength.

**Ethiopia's contribution to the Global Scene**

- ~68% of total bovine supply came from developing countries, growing at 1% each year. Of that Africa has contributed a negligible share (~0.3%). Ethiopia's contribution of bovine leather to global supply is growing at a faster rate than other African countries.
- Ethiopia's supply of skins from Africa's total is slightly decreasing, indicating the emergence of stronger suppliers on the continent and raw material decline.

Source: SUNIC 2017, ITC Trade Map, various years
Although most of the value chain activities currently take place in developing countries, numerous challenges have to be addressed and managed carefully.

Key challenges for emerging manufacturing hubs like Ethiopia:
- Outdated Production Technologies
- Limited Resources
- Shortage of Experienced Professionals
- Supply Chain Relationship Issues
- Low level Technical and Physical Infrastructure
- Poor Information for technology application
- Cultural Organizational Challenges
- Dependency on Imported inputs
- Cultural Organizational Challenges

Challenges and Barriers

...are increasingly addressed through global shifts in supply chain management:
- Current trends indicate a pressing need for developing countries to become a part of larger supply chain models in order to contribute to and increase competitiveness and resulting customer satisfaction.
- Increased economic development has resulted in increased disposable income and discerning customers providing augmented market opportunities for manufacturers.
- Integration in global value chain leads to upgrade in manufacturing technology and capabilities to boost the leather sectors and allow entry into more complex products.
- Partnerships with leading countries (brands) also leads to overhaul of entire or parts of value chain to make available better quality and increasingly differentiated final products.

However, there is a genuine need to manage the mode of insertion into the global economy concerning the capability of integration in to export markets in a manner which would provide for sustainable income growth.

Source: Internal analysis, expert knowledge and resources
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As the industry continues to evolve, manufacturers and suppliers are gaining tighter supply chain control and placing emphasis on sustainable production systems.

**Emerging Trends**

**Rigorous control of supply chain**
- Tight control of supply chain by large retailers to aggressively cut costs, remove intermediaries and respond rapidly to customer requirements
- Greater control on product margins

**Improved design technology and custom design**
- Significant innovation, increased focus on anatomy of foot and movement
- Visible shift from product-centric approach to customer-centric approach
- Large brands have influenced creation of low cost sports shoes, of which Ethiopia is a large importer

**Increase in training centers by buyers**
- Huge range of customer segments has led European countries to set up training centers to preserve and further develop specific skills such as high end shoe making

**Strong and creative use of media to build presence**
- Omni-channel marketing in order to develop both physical and virtual marketing channels to capture larger part of fragmented customer base
- Focus increasingly seen on creating more involved and direct customer experience

**Analytics to build sustainability**
- Improvements in production techniques in order to best use limited resources
- Reduction in environmental impact also translates to increased access to global players
- Ethiopia has opportunity early on to promote greener economy

**Increase in training centers by buyers**
- Manufacturers focusing on development of flexible supply chains, allowing use of wider range of suppliers
- Shortage of workers and rising labor costs in China driving manufacturers to alternative sources in Asia and outlook
In the coming 5 years, industry is expected to experience reduction in raw material production and movement in the finished products manufacturing.

5 year outlook on RHS, finished leather, leather products...

- RHS: countries will continue to produce RHS as a by-product to the meat industry. The meat industry is expected to experience a dip as vegans increase in influence as well as ruminants factor (the need/pressure to reduce methane emissions). For example, independent researchers in the UK are suggesting such ideas as two days in a week “meatless” days, meat taxes and that people become flexitarian.

- Finished leather: will continue to face challenges from the “Z generation” on sustainability, environmental and social responsibility. Synthetics will continue to compete with leather even though synthetics are facing environmental and sustainability questions/challenges.

- Leather products: brands and customers will continue to demand better, cheaper, and faster productions with a big skew on environmental, social and sustainability aspects.

- Manufacturing chasing cheaper labor/resources: due to the huge cost drive up in China, investors are looking to relocate.

Implications on competing effectively

- Quality and price pressure
- Shift on product types
- Shift in sourcing regions in the world
- Other African countries working on improving investment and business climate for the leather sector
- The world of consumers is changing and Ethiopian businesses need to acknowledge this

Key trends/insights

- Declining trend of leather use in footwear and garments/clothing
- Leather use of automotive is suggested to have stagnated very recently – due to concerns from the younger generation. However, the trend had been growing for automotive use.
- Demand for chrome free and metal free tanned leather is expected to grow from brands
- Bio-fabrication, it is an emerging technology that will generate leather from non-animal sources.

Source: Internal analysis, expert knowledge and resources
The scope of this engagement was to study and benchmark international experiences and implications for Ethiopia based on the gaps assessed in the Ethiopian leather sector.

Key objectives

1. To better understand how selected countries developed their Leather sector industries (policy interventions and government support) and lessons learned for Ethiopia

2. To benchmark specific interventions from the selected countries based on the current state assessment of the Ethiopian Leather sector

3. Selected countries for analysis:
   - India
   - Vietnam
   - Turkey
   - Brazil

Scope of case study

Leather Sector landscape
- What are the high-level characteristics of the leather sector?
- What are the key drivers of the export performance of the sector?

Regulatory environment
- What is the institutional and regulatory framework for leather industry in Benchmarked country?
- What policies and regulations and incentives shaped the current state of the leather industry?

Social and Environmental Compliance
- What are the key measures and systems available to ensure social and environmental compliance to international standards?

Source: Internal analysis, expert knowledge and resources
India, Vietnam, Turkey and Brazil were benchmarked based on specific selection criteria and lessons were drawn accordingly.
India, Vietnam and Turkey were benchmarked for their performance across the leather value chain; Brazil was prioritized to elicit experience on the RHS production and management

<table>
<thead>
<tr>
<th>Value Addition</th>
<th>Export Performance</th>
<th>Supply chain management</th>
<th>Social &amp; Environmental Compliance</th>
<th>Policy and Institutional Setup</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>India</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indian leather sector stands at USD 17.85 billion</td>
<td>Center for value addition, especially footwear (was 1.2 billion pairs in 2016), the third in the world.</td>
<td>In 2017 5.85 billion exports leather</td>
<td>Internationally accredited Public and private testing laboratories ~400/2100 LWG accredited tanneries, 25% are gold rated</td>
<td>The government first fully supports setting up the facilities and machineries (CLRI, NIFT, FDDI, ITPO etc.) Institutions are run like service providing businesses generating sustainable income Demand driven training by various public and private training institutions</td>
</tr>
<tr>
<td>Second largest producer of footwear and leather garments in the world</td>
<td>Turkey has the biggest production capacity of double face sheepskin leather in the world with 80 million pcs/year. The very first leather industrial zone was established just outside of the Topkapi city walls after the conquest of Istanbul and lived for about 500 years.</td>
<td>Second largest producer of footwear and leather garments in the world;</td>
<td>Compliant production facilities as the country serves leading brands and markets across the globe</td>
<td>FDI focused development strategy using (i) the use of proper policies to support FDI promotion; (ii) greater focus on establishing a liberal neutral environment; (iii) provision of necessary conditions for the effective decentralization of FDI management; (iv) promotion of supporting industries; and (v) closer consultation with existing and potential investors</td>
</tr>
<tr>
<td>• In 2017 5.85 billion exports leather</td>
<td>Ranked 4th globally in footwear exports Vietnamese footwear and handbags are now available in over 100 countries, with 72 countries annually importing more than US$1 million worth of the products.</td>
<td>Most chemical suppliers operate servicing unit leather clusters; most components, chemicals and machinery produced locally Accessories for large “brand” leather goods imported with a very short lead time of 3-4 weeks. Efficient Bonded warehouse system (for chemicals and components)</td>
<td>Compliant production facilities as the country serves leading brands and markets across the globe</td>
<td>FDI focused development strategy using (i) the use of proper policies to support FDI promotion; (ii) greater focus on establishing a liberal neutral environment; (iii) provision of necessary conditions for the effective decentralization of FDI management; (iv) promotion of supporting industries; and (v) closer consultation with existing and potential investors</td>
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<tr>
<td>Turkey has the biggest production capacity of double face sheepskin leather in the world with 80 million pcs/year.</td>
<td>Turkey has the biggest production capacity of double face sheepskin leather in the world with 80 million pcs/year.</td>
<td>Turkish leather industry depends on modern production infrastructure in tanning and leather production which is a result of R &amp; D institutional efforts. Local production of inputs accessories and components serves the industry</td>
<td>Today there are about 14 Industrial Leather Zones in Turkey which are able to use modern technology and to produce environment friendly high-quality products.</td>
<td>Promotion of investments through incentives was an important policy instrument that has been used in the post-1980 period. Sector is endowed with highly trained technical personnel and skilled labor as a result of efficient industry focused vocational and higher education system</td>
</tr>
<tr>
<td>The Brazilian tanning industry is highly dispersed, with about 310 tanneries, which generate 50,000 jobs,</td>
<td>70 % RHS and leather production exported.</td>
<td>Efficient RHS handling marketing and processing Locally sourced RHS form extensive commercial farms</td>
<td>The sector has modern manufacturing facilities and employ highly qualified labor.</td>
<td>Efficient RHS grading and marketing policy in place.</td>
</tr>
</tbody>
</table>
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Indian leather sector stands at USD 17.85 billion and accounts for 12.93% of the world’s leather production of hides/skins

Key Characteristics of the Indian Market

- A strong base for raw materials – endowed with 20% of the world’s cattle and buffalo and 11% of the world’s goat and sheep population.
- Indian leather sector stands at USD 17.85 billion (Exports – USD 5.85 billion, Domestic Market – USD 12 billion) and accounts for 12.93% of the world’s leather production of hides/skins with high growth projections for the coming years.
- Second largest producer of footwear and leather garments in the world.
- The sector is predominantly run by locally owned factories, tanneries and merchants who have taken advantage of the policy and regulatory reforms in the last 30-40 years.
- Strong and sustained focus on value addition since 1970s supported through robust incentive and support strategies.

Key Stats

- Population: 1,281,935,911 (July 2017 est.)
- Total GDP: $2.439 trillion (2017 est.)
- GDP/capita (PPP): $7,200 (2017 est.)
- Gini coefficient: 37.6 (2017 est.)
- Total production: USD 17.85 billion (2016)
- Exports: USD 5.85 billion (2016)
- Imports: USD 772.189 Mill (2017)
- Annual growth of export: 7% (5 yr average) (2017)

Existence of free trade agreements: India has trade agreements with Japan, Korea, ASEAN, Chile etc., and is negotiating Free Trade Agreement with European Union, Australia etc.

Infrastructure Projects in Export Clusters: Council for Leather Exports (CLE) has been acting as a Central Agency for implementing Infrastructure projects relating to Leather Sector (ZLA facilities, Mega clusters, CETP facilities, Common Facility Centers, Testing labs etc...)

Strong Institutional support: Key government institutions have been providing efficient support to the sector in HRD, research and development, laboratory services, trade promotion and marketing. Some of the key ones include (FDDI, CLRI, ITPO, etc.)

Integrated Incentive System: Various incentive systems for producers, exporters as well as environmental and social compliance initiatives have been put in place.

Rise of R & D projects: World-class institutional support for Design & Product Development, HRD and R & D has been effectively implemented.

Footwear holds the major share of 47.54% in the total export of leather and leather products and USA is the largest buyer of Indian footwear.

Export destination of Indian leather and leather products by % (2017)

- Footwear holds the major share of 47.54% in the total export of leather and leather products. This is followed by Leather Goods & Accessories with a share of 23.34%, Finished Leather 16.77%, Leather Garments 9.79% and Saddlery & Harness 2.56%.
- Export of leather & leather products to major markets like USA, Germany, UK, Italy, Hong Kong, Spain, etc., have shown negative growth during April-June 2017-18.
- Except Leather Footwear and Finished Leather, the other product categories have shown positive growth.

Source: ITC trade map, Leatherindia.org, tax incentives in India, 2014
The Government of India laid emphasis on export of value added leather products, as a result, the export of value added leather products and footwear began to increase slowly, through the 1970’s onwards.

<table>
<thead>
<tr>
<th>Period</th>
<th>Key activities</th>
</tr>
</thead>
</table>
| 1950’s & 1960’s               | • Production of leather and leather products was predominantly carried out in cottage level.  
• The industry was exporting mainly raw hides & skins and semi-processed leathers, with value added leather products constituting only 3.88% in 1955 and 9.3% in 1965.                                                                                                               |
| 1970’s                        | • The Government of India laid emphasis on export of value added leather products which laid the framework for export of value added products from the industry.  
• Import of technology, capital goods, chemicals and other inputs needed for making finished leather was allowed; Import duties were reduced  
• As a result, the export of value added leather products and footwear began to increase slowly to 20.51% in 1979-80.                                                                                                           |
| 1980’s                        | • The transition phase of the industry from being a supplier of raw materials to an exporter of high quality leather products and footwear, with value added leather products constituting a significant share of about 65%.                                                                                                      |
| 1990’s                        | • Long term programs like the National Leather Development Program (NLDP) were implemented to further consolidate and enhance the growth and development of the Indian leather sector.  
• NLDP implemented large scale infrastructure and technological enhancement and capacity building programs which enabled the sector development in a sustainable manner.                                                                 |
| First decade of the 21st Century | • The leather sector was recognized as a “Focus Sector” in the Foreign Trade Policy 2004-09 and 2009-14.  
• The exports of leather and leather products is an industry of more than USD 3 billion, with value added leather products/footwear constituting a share of about 80%.  
• The Indian Leather Development Program (ILDP) XII is underway with the major focus of Mega Leather Cluster scheme in which the central government provides up to 50% of the project cost, Support to Artisan scheme intend to support small dale producers and strengthening of Leather Technology, Innovation & Environmental Issues. |

Source: Overview of the Leather Industry in India, 2012
India managed to overcome the challenges of the value added export policy through integrated and coordinated interventions across the private and public continuum.

**Analysis of leather sector in India**

- Indian government followed value addition policy in the 1970/80s and banned exports of raw hides and skins.
- The policy shift resulted in a dip in exports performance in the early years; which was a natural phenomenon as the industry had to learn adding value and operate in a different market.
  - The dip in exports stayed for only four years (1980 to 1983).
  - The export declined by 23% in 1981, and slowly picked up after 1984 and reached 34% growth by 1987.
- The government support institutions and private sector worked together in supporting the industry grow holistically (i.e. managed to integrate products). The establishment of CLRI in 1967 and FDDI in 1988 played a key role in institutionalizing the support structure.
- Research and training institutions played big part on technology and technical support while the government had incentive packages including duty drawback and export rebates.
- Since India is a large country, the cluster approach helped in paving the way input providers, support institutions and treatment plants are spread across the country.
- Most product manufacturers are also located within these clusters but also in the villages in which labor availability is ensured without relocating the workers.

**Lessons learned for Ethiopia**

- Ethiopia has been facing similar challenges in its export performance as a result of the policy shift to export of value added leather products.

**Key lessons**

- Putting in place an integrated, multifaceted approach from key public and private actor to lay the ground to fast track the sector’s learning curve.
- GoE to integrate and mainstream initiatives by private and public bodies across the value chain.
- To ensure the national level marketing of Ethiopian leather is strengthened to ensure sustainable brand relationship and technology/knowledge transfer.
- Strong policies on finance, access to inputs, logistics and other support functions to ensure fast tracked production and export.
- Need for ensuring a well trained human capital base through the strengthening of public and in-house training facilities.
- Cluster approach – Push on Modjo leather city for tanning and development of dedicated IPs.
- Product factories need to account for labor access and port access (for speed to market).

**Source:** Synthesized from the Benchmarking visit in Chennai and Delhi and additional reference
Efficient supply chain systems and branding and marketing strategies at the national level have immensely contributed to the success of the Indian Leather sector.

### Analysis of leather sector in India

#### Local Supply chain
- Almost every chemical supplier has servicing unit in each leather manufacturing cluster, leading to limited inventory requirements by tanneries.
- Local production and distribution of components, chemicals and machinery.

#### Imports of inputs
- Most tanneries and product manufacturers (with own tanneries) are using both local and imported raw material (50%).
- Wet-blue is imported mainly from Brazil, USA and other countries.
- Accessories for large “brand” leather goods are still being imported with a very short lead time of 3-4.
- Efficient Bonded warehouse system (for chemicals and components).

### Lessons learned for Ethiopia

- Setting up mechanisms to ensure service centers for chemical and machinery distributors in key geographic locations.
- Facilitating easy finished leather import (where applicable).
- Incentivizing FDI and local investment for accessories/component making.
- Put in place aggregated import of chemical/accessories/components system (EIIDE/private sector).
- Strengthening the bonded warehouse system to ensure shorter lead time for inbound logistics – need to align with NBE and ERCA.

#### National branding and marketing
- Strong national level marketing and branding is available through council for leather exports supported by other sister councils/associations.
- The Made in India Concept.
- The efficient Export promotion efforts made by the government.
- The specialized trade fairs and exhibitions.
- High level relationship and experience in dealing with Brands.

The need for Branding/Re-branding the Ethiopian leather as a source for quality and sustainable production.

The need for focused Investment and export promotion demonstrating the untapped potential in the sector.

Incentives, structures and coordinated interventions to attract and retain Brands in to the country.

Source: Synthesized from the Benchmarking visit in Chennai and Delhi and additional reference.
The vibrant, self-sustaining nature of public and sector associations coupled with their ability to provide demand-based services has contributed significantly to the development of the Indian Leather sector.

### Analysis of leather sector in India

#### Self sufficiency
- The government first fully supports setting up the facilities and machineries (CLRI, NIFT, FDDI, ITPO etc...)
- Institutions are run like service providing businesses generating sustainable income.
- This helps them be active and of value to the industry with efficiency.

#### Industry – Gov’t linkage
- Demand driven training by various public and private training institutions (from skilled labor, to design, technicians, etc...)
- High level placement ratio of trained manpower with in the industry.
- Provision of internationally accredited (E.g. SATRA) testing services to the industry.

### Lessons learned for Ethiopia

- Introducing a business approach/model approach to the Ethiopian Public support structure of the Leather sector.
- Designing and implementing demand driven services to the sector by the public support structure to ensure sustainable development.
- Capacitating and continuously upgrading the public support facilities with international standards and facilities (twining, capacity building etc...)
- Ensuring visible role clarity and focus of public support structures and institutions.
- Proactive reaching out from LIDI to industry needs.
- Incentivize LIDI to provide services to the sector.

### Source
Synthesized from the Benchmarking visit in Chennai and Delhi and additional reference.
Adherence to international standards
- In-house compliance systems by companies (Laboratories and testing facilities, quality management systems etc.)
- Internationally accredited Public and private testing laboratories and facilities
- ~400 LWG accredited tanneries out of the 2100 across the country, of which 25% are gold rated.

Common Effluent Treatment Plants (CETPS)
- CETPS contributing to environmental compliance, water resource saving and cost saving serving up to ~90 tanneries at a single facility.
- The government financing of CETPS (up to 65%, the rest is covered by member tanneries plugging into the CETP, organized as a corporation with its own legal entity).
- Secured landfill are also available along with the CETPs.
- CETPs charge tanneries based on quantity and quality of their discharge. The quality parameter is encouraging tanneries to adopt cleaner production systems.

Enhancing regulatory mechanisms to ensure adherence to international social and environmental standards
- Socializing the requirements and specifications of social and environmental compliance to the industry
- Piloting LWG and comparable certification and accreditation programs in the country.
- Provision of special incentives for the import, financing and demonstration of social and environmental services and facilities.
- Adopting the CETP model into the Ethiopian context including the financing and the corporate administration model (Ensure the current initiative in Modjo Leather city becomes a reality).

Source: Synthesized from the Benchmarking visit in Chennai and Delhi and additional reference
Indian government offers incentives and support to encourage exports and R&D projects

**Incentives Offered by Indian Government**

1. **General incentives**
   - Manufacturers or producers of any article are provided with incentives like: deduction of 100% of profits of the qualifying unit for 10 consecutive years, deduction restricted to profits of the unit on a stand-alone basis and refund on excise duty payable on specified value addition for 10 consecutive years.
   - Special Economic Zones (SEZ) are given incentives like: Customs duty exemptions, excise duty exemptions, VAT exemptions on goods produced in SEZs, exemption from CST on the inter-state purchase of goods, exemption of service tax, etc.
   - Developers eligible for a 10-year tax holiday out of 15 years from the year in which the particular SEZ is notified.

2. **R & D incentives**
   - In-house R&D facility is eligible for deduction at 200%.
   - Capital expenditure incurred (except on land and building) up to 31 March 2017 on in-house scientific R&D facility approved by the DSIR (Department of scientific and industrial researches).
   - Customs duty exemption and Apart from the customs duty exemption for units registered with DSIR, a provision has been made for entities not registered with DSIR for payment of customs duty at the time of import by public funded and other research institutions, and then claim refund of customs duty paid, subject to submission of a certificate of registration from DSIR and other specified conditions.

3. **Export incentives and Schemes**
   - Exemption/Refund of various indirect taxes such as customs duty, excise duty and CST on the procurement of capital goods and inputs (as the case be) for permitted operations.
   - Permit the import of inputs without customs duty, subject to the fulfilment of value-added norms and export obligation.
   - Post export benefit to allows rebate of taxes and duty paid on inputs and input services used in the manufacture of exported goods at prescribed rates.

**Lessons learned for Ethiopia**

- Revise the current incentives mechanism for the sector to ensure the applicability of the shift to finished leather exports.
- Make sure IP developers and tenants focusing on the leather sector are provided the necessary policy and institutional support to attract more investment into the country.

- As R&D in the industry is practically non-existent except for few efforts in LIDI, hence institutional strengthening and technology transfer initiatives need to be strengthened.
- Put in place special incentives for the private sector willing to invest in R&D initiatives in the sector.

- Separate general incentives for the manufacturing sector from export incentives and strengthen the institutional support system for effective implementation.
- Revise the current export incentive mechanism to ensure competitiveness of Local firms in the international market.

Source: Tax Incentives in India, 2014
Environmental and social compliance measures and support structures have contributed to Brand attraction and retentions as well as sustained exports of the Indian leather sector

Key public institutions

• Council for Leather Exports (CLE): is the single largest and Apex trade promotion organization of the strong and rapidly growing Indian leather & leather products industry. CLE is committed towards the overall development of Indian leather sector and achieve higher export growth to enhance India’s share in global leather trade. CLE is functioning under the aegis of Ministry of Commerce & Industry, Govt. of India. It is the notified Export Promotion organization for entire leather & leather products industry.

• Central Leather Research Institute (CLRI): was founded on 24 April, 1948 to develop an internal strength in the country to generate, assimilate and innovate technologies for leather sector. CLRI, today, is a central hub in Indian leather sector with direct roles in education, research, training, testing, designing, forecasting, planning, social empowerment and leading in science and technology relating to leather.

• Footwear Design and Development Institute (FDDI): was established in 1986, under the aegis of Ministry of Commerce & Industry, Govt. of India. FDDI is playing a key role in imparting education, facilitating the Indian industry by bridging the skill gap in the areas of Footwear, Leather Accessory & lifestyle product.

• National Institute of Fashion Technology (NIFT): Set up in 1986, it is the pioneering institute of fashion education in the country and has been in the vanguard of providing professional human resource to the textile and apparel industry. NIFT has also been working as a knowledge service provider to the Union and State governments in the area of design development and positioning of handlooms and handicrafts.

• The Central Footwear Training Institute (formerly CFTC): came into being in July, 1957, with the assistance of Ford Foundation. Its main objectives include training personnel in footwear technology and designing, fostering linkages with educational, research and development institutions in India and abroad, and to collaborate with them in training, research and development.

Intermediary institutions

• The All India Skin and Hide Tanners and Merchants Association (AISHTMA): is apex body of the tanning industry in India based in Chennai and is charged with the responsibility of promoting the interest of tanning industry, leather trade and other allied trades and industries.

• Indian Leather Industry Foundation (ILIFO): is an association promoted by the industry with the basic objective of providing pollution related services to the industry. It trains people in skills of running effluent treatment plants put up by tanneries.

• India is also a member of international associations like: International Council of tanners (ICT) (UK), International Council for Hides Skins & Leather Traders Associations (ICHSLTA) and International Union of Leather Technicians and Chemists (IULTCS).

Source: makeinIndia.com, CLRI, CLE, FDDI, NIFT, CFTC, AISHTMA, ILIFO websites
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Vietnam’s footwear industry is currently producing 1.2 Billion pairs per year and represents the third large producer in the world

Key Characteristics of the Vietnam’s Market

- In 2016, General Statistics Office of Vietnam recorded that Vietnam’s total production of footwear was 1.2 billion pairs, the third in the world.
- The index number of industrial production of leather and footwear sector in the first 6 months of 2017 has increased by 5.9% over the same period of 2016.
- The country is known for attracting FDI into the sector especially in recent years.
- The government develops the leather and footwear industries as one of the country’s key export industries and maintain its position globally.
- Vietnamese footwear and handbags are now available in over 100 countries in the world, with 72 countries annually importing more than US$1 million worth of the products.
- US accounted for the highest percentage of the total export value, 43 percent, with the EU being the second largest importer of Vietnamese leather and footwear products.

Free trade agreements in effect: The existence of trade agreements with many countries gives Vietnam the advantages to export the leather goods and footwear to over 50 countries among Asia, Europe and other regions.

Export Incentive schemes: Most exports are duty-free, except for a few items of natural resources such as sand, chalk, marble, granite, ore, crude oil, forest products and scrap metals. Raw materials and components imported into Vietnam for the manufacture of goods for export are usually exempt from import duty provided that the goods are actually exported within 275 days.

Rise of R & D projects: the country is becoming an attractive destination for foreign investors to locate their R&D activities.

Target market and portfolio
- The main export items are sports, canvas, and footwear industry and sandals.
- In 2015 US was the largest importer of Vietnamese footwear and China was the largest importer of Vietnamese leather.
- Number of businesses have chosen niche markets such as Japan and the United Arab Emirates, which are small-sized but with good-income consumers and preference for unusual products.

Source: ITC trade map, Leatherindia.org, tax incentives in India, 2014
The Government of Vietnam laid emphasis on export of value added leather products, as a result, the export of value added leather products and footwear began to increase slowly, through the 1970’s onwards.

<table>
<thead>
<tr>
<th>Period</th>
<th>Key activities</th>
</tr>
</thead>
</table>
| 1985 - 2000 | • In the 1986-1988 period, Vietnam’s exports only paid for 34 to 38 percent of the country’s imports with the remainder financed by Soviet aid and import subsidies. With the end of aid and subsidies, Vietnam had either to cut back sharply on imports thus inducing a severe recession or find a way to expand exports.  
  • From 1989 Vietnam partly by choice and partly out of necessity made a rapid transition to a market system.  
  • In 1994 the US embargo on trade with Vietnam was also lifted, further boosting Vietnam’s export prospects and its attractiveness to international investors |
| 2000-2007   | • The government and the National Assembly passed the Enterprise Laws of 2000 and 2005 that formalized the increasing acceptance of private ownership in industry and in the economy more generally.  
  • January 2007 Vietnam formally joined the World Trade Organization (WTO).                                                                 |
| 2007-2018   | • In 2007 a masterplan was approved which presented targets to be met by five industries (namely textiles, leather & footwear, electronics, automotive, and fabricated metal) between 2010 and 2020. The masterplan provided broad strategies for achieving these targets.  
  • Policies on development of a number of supporting industries was approved in 2011. mainly highlighted the types of assistance available for firms under existing regulations.  
  • In 2015 a decree was approved on development of supporting industries for prioritized products which includes the footwear-leather industry.  
  • In 2016 a decree was issued by the Ministry of Finance on detailed guidance of value-added tax (VAT) declarations and corporate income tax (CIT) incentives for companies producing products listed as priorities. |
| 2018-Future | • The objective of the future scheme targets to gradually increase the localization rate of various kinds of products. By 2020, the localization rate is expected to increase to 45%, 47% in 2025 and 55% in 2035 respectively. |

Key drivers of growth in the Vietnamese leather sector development were evolving industrial policy and FDI promotion

### Analysis of leather sector in Vietnam

- In 2001, the “Strategy for Acceleration of Socialist-oriented Industrialization” to modernize the country by 2020 was launched. As part of the strategy, thirteen industries to reach the 2020 target were selected; among them were leather and footwear sector.
- The strategy seeks to mobilize all possible resources to achieve a rapid and effective development of products, sectors and industries that have comparative advantages in order to basically meet domestic demand and promote exports.
- Key strategies of FDI promotion in Vietnam include: (i) the use of proper policies to support FDI promotion; (ii) greater focus on establishing a liberal neutral environment; (iii) provision of necessary conditions for the effective decentralization of FDI management; (iv) promotion of supporting industries; and (v) closer consultation with existing and potential investors.
- Policy measures that were undertaken to improve and support FDI were:
  - The foreign investment law has undergone four revisions in 1990, 1992, 1996 & 2000 to improve registration procedures and the decentralization of investment licensing to land access, trade policy, foreign exchange control, and tax policies.
  - In 2005 the law was improved further to simplify the registration procedures for foreign investments.
  - Vietnam also employed a pro-active open-door policy and embarked on increased global economic integration to facilitate trade and FDI.

### Lessons learned for Ethiopia

- Focused and strategic promotion of the investment potential in the country to attract more FDI in the sector.
- Continuous coordination and consultation platforms with current investors to identify and tackle issues in a sustainable manner.
- Strengthen registration, licencing and after care services for FDIs.
- Strengthen institutional and human capital for attracting, providing service and retaining of FDI in to the country (EIC, MOI, ERCA etc. to be targeted)

Vietnam has not only grown to become a manufacturing hub, but in recent years, the country is also becoming an attractive destination for foreign investors to locate their R&D activities.

The rationale is to bring R&D close to manufacturing, and therefore obtain efficiency and cost-savings.

For Vietnam, the rise of R&D investment projects further confirms and fosters the country’s attractiveness.

Enterprises are aware of the role and importance of science, technology and innovation.

The main items of the finished goods industry are footwear.

Leather Goods market in Vietnam covers: travel items, such as suitcases and rucksacks; briefcases; women’s handbags; clothes accessories, such as belts and gloves; and small items, such as purses, wallets and document holders.

It concentrates on goods totally or partly made of leather but does include products using imitation leather and alternative materials which compete directly.

A number of businesses have chosen niche markets such as Japan and the United Arab Emirates, which are small-sized but with good-income consumers and preference for unusual products. This is the long-term development trend of the Vietnamese leather and footwear industry in the next 15-20 years.

The strong role of R&D institutions and clear market targets are also key drivers of growth in the Vietnamese leather industry.

Analysis of leather sector in Vietnam

Lessons learned for Ethiopia

As the R&D in Ethiopia is in its early stages especially in the private sector, linking the industry actors to R&D, product development and other facilities in the international arena should be the immediate focus.

LIDI’s institutional strengthening and technology transfer initiatives need to be strengthened.

Put in place special incentives for the private sector willing to invest in R&D initiatives in the sector.

The need for Branding/Re-branding the Ethiopian leather as a source for quality and sustainable production.

The need for a focused Investment and export promotion demonstrating the untapped potential in the sector.

Incentives, structures and coordinated interventions to attract and retain Brands into the country.

Source: Synthesized from the Benchmarking visit in Chennai and Delhi and additional reference.
Incentives Offered by Vietnamese Government

1. **General incentives**
   - Corporate income tax (CIT) incentives: Preferential CIT rate (i.e., lower CIT rate in comparison with the standard CIT rate of 20%) for a definite period or for the entire duration of the investment project; exemption from CIT and reduction of CIT for a definite period.
   - Import duty incentives: Exemption from import duty in respect of goods imported to form fixed assets, raw materials, and components for implementation of an investment project.
   - Incentive relating to land rental and land use tax: Exemption or reduction of land rental and land use tax.

2. **R & D incentives**
   - The Government built policies to encourage enterprises in investment of R&D activities.
   - The government has made reforms in line with the actual needs of the enterprises.
   - The State implements tax policies to encourage enterprises in investment in R&D and innovation.

3. **Export incentives and Schemes**
   - Most exports are duty-free, except for a few items of natural resources such as sand, chalk, marble, granite, ore, crude oil, forest products, and scrap metals.
   - Raw materials and components imported into Vietnam for the manufacture of goods for export are usually exempt from import duty provided that the goods are actually exported within 275 days.
   - Export Credit Facility: The Government has created credit facilities for export. Three types of credit-facilities are provided, these include a general credit facility for all private firms, an export credit facility for private exporters and a credit-guarantee facility for private SMEs.
   - The State Bank lowered the foreign exchange surrender requirement.
   - Export Processing Zones: A separate regulation governs the granting of tax incentives in industrial zones and export processing zones.
   - Enterprises with foreign-invested capital and parties to a BCC in especially encouraged projects are exempt from import duty in respect of certain imported goods which form part of their fixed assets.

Lessons learned for Ethiopia

- Revise the current incentives mechanism for the sector to import of raw materials is compensated based on value addition levels.
- Make sure IP developers and tenants focusing on the leather sector are provided the necessary policy and institutional support to attract more investment in to the country.
- Put in place special incentives for the private sector willing to invest in R&D initiatives in the sector.
- Encourage export value and price based incentive system to ensure sustained export of finished goods.
- Revise the current export incentive mechanism to ensure competitiveness of Local firms in the international market.

Environmental and social compliance measures and support structures have contributed to Brand attraction and retentions as well as sustained exports of the Indian leather sector

**Key public institutions**
- The Ministry of Industry and Trade (MOIT) - is the government's ministry in Vietnam responsible for the advancement, promotion, governance, regulation, management and growth of industry and trade.
- The Ministry of Natural Resources and Environment (MONRE) - is a government ministry in Vietnam responsible for: land; water resources; mineral resources, geology; environment; hydrometeorology; climate change; surveying and mapping; management of the islands and the sea.
- The Ministry of Agriculture and Rural Development (MARD) - a government ministry responsible for rural development and the governance, promotion and nurturing of agriculture and the agriculture industry in Vietnam.
- The Ministry of Science and Technology (MOST) - is a government ministry in Vietnam responsible for state administration of science and technology activities; development of science and technology potentials; intellectual property; standards, metrology and quality control; atomic energy, radiation and nuclear safety.

**Intermediary institutions**
- LEFASO - Vietnam Leather, Footwear and Handbag Association - is a social, professional organization of Vietnamese organizations and citizens, doing business in leather - footwear- handbag industry under Vietnam law, voluntarily establishing, for the purpose of gathering, uniting its members, protecting legitimate rights and interests of its members, supporting each other for effective operation, contributing to the socio-economic development of the country. The Association is under the management of the Ministry of Industry and Trade and other relevant ministries and branches in the operation field of the Association in accordance with the law.

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The Turkish leather industry is one of the most significant industries within the economy

**Key Characteristics of the Turkish Market**
- Turkish leather industry is one of the most significant industries within the Turkish economy; 1% of Manufacturing Industries’ Output, 0.43% of Total Labor Force, and 1% of Total Turkish Exports Earnings.
- Turkey has the biggest production capacity of double face sheepskin leather in the world with 80 million pcs./year.
- Key figures of Turkish leather industry are heritage, artisanship, qualified labor force, physical & technical infrastructure, flexible & high-quality production, immediate adaptation, customer-oriented attitude, diversity and fast fashion.
- High experience and know-how in fur and suede production and world leadership, high knowledge in Zig production and ranking among the top five, enough level of infrastructural investment.

**Key Stats**
- Total GDP: $2.133 trillion (2017)
- GDP/capita (PPP): $26,500 (2017)
- Gini coefficient: 40.2 (2010)

**Leather and Leather products**
- Total production: 6.5 million pieces Bovine, 80 million pieces Ovine (2016)
- No of companies: 23,204 Companies (2016)
- Annual production growth: 3.4% (July 2017)
- Exports: USD 4 billion (2016)

**Prospects of Leather Market in Turkey**
- Prospects of the Leather Market in Turkey

Turkish leather industry is very experienced, talented, and technologically advanced, which makes it highly competitive in the global market.

**Key success factors for Turkish exports**

- Turkish leather industry is very experienced, talented, and technologically advanced, supported by a young population and ambitious companies which makes it highly competitive in the global market.

- Increased export incentives like payment of tax rebates, access to subsidized export credits, and duty-free imports of necessary inputs for exports were instrumental in stimulating export growth.

- The geographical closeness of Turkey to the European and Asian markets has logistical advantage.

**Export of Leather and Footwear (USD millions)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>903</td>
<td>893</td>
<td>641</td>
<td>602</td>
<td>670</td>
</tr>
</tbody>
</table>

**Target market and portfolio**

- Footwear, double-face garment, finished leather and fur, leather garment and saddlery are major products exported to destination markets.

- Turkish leather is currently exported to Germany, Italy, China, India, France, UK and South Korea. But for the future it is expected to have big potential in Russia, Italy, China, Japan and United states of America in respective orders.

- The Turkish leather industry has adopted fashion and design -oriented market development, market differentiation by promotional activities and fairs and strong placement of the Turkish leather brands.

**Export destination of RHS and Leather (2017)**

<table>
<thead>
<tr>
<th>Top 10 destinations</th>
<th>Percent of exports (2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>11.2%</td>
</tr>
<tr>
<td>Italy</td>
<td>9.9%</td>
</tr>
<tr>
<td>Germany</td>
<td>9.2%</td>
</tr>
<tr>
<td>South Korea</td>
<td>7.3%</td>
</tr>
<tr>
<td>China</td>
<td>6.2%</td>
</tr>
</tbody>
</table>

**Export destination of leather (2017)**

<table>
<thead>
<tr>
<th>Top 10 destinations</th>
<th>Percent of exports (2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>14.3%</td>
</tr>
<tr>
<td>Italy</td>
<td>10.7%</td>
</tr>
<tr>
<td>France</td>
<td>9.9%</td>
</tr>
<tr>
<td>UK</td>
<td>8.7%</td>
</tr>
<tr>
<td>USA</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

**Source:** ITC trade map, 2018, Istanbul Leather & Leather Products Exporters’ Association, 2012, The world folio 2015
The Asian Crisis in 1997, the Russian Crisis in 1998 and financial crisis in Turkey in 2001 affected the leather and leather goods industry unfavorably. Nevertheless, the sector managed to survive the hits and currently there are about 14 industrial leather zones.

<table>
<thead>
<tr>
<th>Period</th>
<th>Key activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>15th Century</td>
<td>• The very first leather industrial zone was established just outside of the Topkapi city walls after the conquest of Istanbul and lived for about 500 years.</td>
</tr>
<tr>
<td></td>
<td>• By the implementation of openness to the abroad and export encouraging policies in the Turkish economy after 1980s, the Turkish Leather and Leather Goods Industry went through a rapid development period.</td>
</tr>
<tr>
<td></td>
<td>• In 1982, the first industrial zone moved from Topkapi city walls to Tuzla Industrial Leather Zone, where the biggest industrial leather zone in Europe where inside ecological production is made.</td>
</tr>
<tr>
<td></td>
<td>• Turkey started importing raw hides and skins after 1983 to meet the demand in the industry. The imports of rawhides and skins have been increasing ever since, as a result of the increasing exports of leather and leather goods.</td>
</tr>
<tr>
<td></td>
<td>• In addition to the economic policies, the geographical closeness of the Turkey to the European markets, its traditional knowhow of leather works and the large amount of sheep and goat skin available were the key factors of this development period.</td>
</tr>
<tr>
<td>The 1980s</td>
<td>• The production in the sector growing rapidly in 1990s because of high increase in demand for leather garments, leather goods and footwear of east European countries and especially Russia made a peak in 1996.</td>
</tr>
<tr>
<td></td>
<td>• The production increased by 8.1 percent annually in the 1990-1996 period.</td>
</tr>
<tr>
<td></td>
<td>• The Asian Crisis in 1997, the Russian Crisis in 1998 and financial crisis in Turkey in 2001 affected the leather and leather goods industry unfavorably, causing investments to pause. As a result, production decreased by 1.8 percent annually in the 1996-2002 period.</td>
</tr>
<tr>
<td>1990s-2001</td>
<td>• Today there are about 14 Industrial Leather Zones in Turkey which are able to use modern technology and to produce environment friendly high-quality products.</td>
</tr>
</tbody>
</table>

**Source:** Istanbul Leather & Leather Products Exporters’ Association, 2012, SECTOR PROFILES OF TURKISH INDUSTRY, 2004
The policy transformation towards a market-oriented economy and trade liberalization contributed a lot for export and FDI inflow.

**Analysis of leather sector in Turkey**

1. **Industrial Policy and FDI Promotion**
   - Before 1980 Turkey followed a policy of “import substitution industrialization”, so trade protection was a major component of industrial policy.
   - In the 1980s the policy was transformed towards a market-oriented economy and trade liberalization.
   - By 1990 quantitative trade restrictions were totally eliminated and tariffs were reduced very significantly (from 75.8% in 1983 to 40% in 1990 and to 20.7% in 1994).
   - The trade policy environment was further radically changed by the establishment of the Custom’s Union (CU) with the European Union in 1996.
   - After the coup of 1960 Turkey entered the so-called “planned era” and promotion of investments became a priority.
   - Promotion of investments through incentives was an important policy instrument that has been used in the post-1980 period.
   - An important characteristic of the post-1980 period was that incentives were used not only to increase the overall level of investments but to direct investments to particular sectors including the leather sector.

2. **Human Resources**
   - Sector is endowed with highly trained technical personnel and skilled labor.
   - Turkish leather sector supports 415,075 employee as of 2016.
   - Institutions: leather engineering division of a state university (25 years), Leather processing unit in private university (4 years).
   - Schools: 3 vocational schools, 4 industrial high schools and 1 institution serve the human resources needs of the leather processing industry.
   - Training centers: an industrial high school and an apprentice training center provides training for the footwear industry, while 1 vocational school and 1 industrial high school is available for training on leather garments industry.

**Lessons learned for Ethiopia**

- The need to adopt tailored FDI attraction and investment promotion strategy to tap in to the country’s potential.
- Revise incentive mechanisms to insure sustained investment in the sector.

- Turkey has got many training institutions, schools and vocational centers that are committed to train a skilled and knowledgeable force for the leather sector. This proves that to develop Ethiopia’s leather sector, capacitating the labor force needs to be prioritized. Focused and tailored curriculums in educational centers could help in this aspect.

*Source: Structural Change and Industrial Policy in Turkey, 2014, IDMIB, TLC, 2016, SECTOR PROFILES OF TURKISH INDUSTRY, 2004*
The leather industry is focused on producing high quality products and high level income group customers. As a result, innovations from R&D institutions is backbone of the industry.

### Analysis of leather sector in Turkey

- Turkish leather industry depends on modern production infrastructure in tanning and leather production which is a result of R & D institutional efforts.
- The main public agencies responsible for conducting R&D related support programs are the Scientific and Technological Research Council of Turkey (TUBITAK), Technology Development Foundation of Turkey (TTGV) and Small and Medium-size Industry Development Organization (KOSGEB) affiliated with the Ministry of Industry and Trade.

### Lessons learned for Ethiopia

- The existence of a strong and dynamic R & D institution will lay a fertile ground for the development of leather sector.
- Public sector support institutions like LIDI need to focus on R&D and to provide the necessary support for the industry.

- The target market is high level income group in the world. To reach this market certain activities such as increasing the export potential, concentrating on marketing activities, giving more importance to branding and endeavoring for international marketing by penetrating into new markets have been necessary.
- The focus is on the production and marketing of high value-added products. Hence, efforts are targeted to create an image and branding for high quality Turkish products in the world market.

- The Turkish leather sector is focusing on producing high quality products for high level of income group since they are good at quality rather than bulk production. Ethiopia can try to increase the bulk of production since at this stage the level of quality required is not realistically achievable given technological and resource constraint.
The Turkish government grants various incentives to encourage investment. The level of support depends on the type of the investment and preconditions to be fulfilled.

### Incentives Offered by Turkish Government

#### General incentives
- Incentive Support Tools: Incentive measures consist of 4 (General, Regional, Large scale and Strategic investments) different incentive schemes and 9 different tools and applicability of these tools is differing according to investment scheme and regions. These are:
  - VAT Exemption on importation of machinery and equipment
  - Customs Duty Exemption
  - Corporate Income Tax Reduction
  - Social Security Premium Support (Employer’s Share)
  - Income Tax Withholding Allowance Interest Support
  - Land Allocation
  - VAT Refund
- All these support measures have different requirement and different applicability.

#### R & D incentives
- Public support for research and development exists since the 1990s, however resources have been limited until recently.
- The private sector is specifically targeted by the industrial R&D support programs managed jointly by the Technology and Innovation Support Programs Directorate of TUBITAK (TUBITAK-TEYDEB) and the Under-secretariat of Foreign Trade (DTM).

#### Export incentives and Schemes
- Export tax rebates: which compensated exporters for indirect taxes. For certain goods, 20 percent of export earnings could be deducted from taxable income.
- Subsidized export credits: that works under the export-credit-rediscount scheme, exporters holding certificates and reaching minimum levels of exports could obtain preferential credit for up to 25% of their export commitment at rates far below market lending rates over the entire period.
- Preferential allocation of foreign exchange and duty-free imports.
- Resource Utilization Support Fund (RUSF) supported exporters based on export volume.

### Lessons learned for Ethiopia

- Revise the current incentives mechanism for the sector to import of raw materials is compensated based on value addition levels.
- Strengthen LIDI’s R&D facilities to provide support services to the industry.
- Put in place special incentives for the private sector willing to invest in R&D initiatives in the sector.
- Revise the export incentive mechanism to include the export credit mechanism in to the sector.
- Preferential allocation of forex in to the sector is critical as it is one of the key bottlenecks in Ethiopia.

There are a number of supporting institutions and associations working towards the development of the leather industry

Public and Intermediary institutions

• Turkish Leather Council (TLC): was founded in 2005 with the purpose of promoting Turkish leather brands in domestic and international markets. Carries out activities to elevating the quality and trust perception of «Genuine Turkish Leather» in the eyes of consumers.

• Istanbul Leather and Leather Products Exporters’ Association (IDMIB): acts with the aim of increasing the market and exports potential and helping its members to improve B2B and multilateral trade relations.

• Footwear Sub-industrialists Association (AYSAD): was established in 1988 to combine footwear subcontractors under a single roof. It is the first and only non-governmental organization in the industry to embrace the manufacturers, representatives, importers, exporters and shoe designers of all kinds of materials used in footwear production.

• Footwear Industrialists Association of Turkey (TASD): was established in Istanbul on January 2, 1985 and has been working to help the technical and economic development of this industry. It also tries to assist professionals by enhancing their knowledge of value addition, talent and experience.

• General Secretariat of Istanbul Textile and Apparel Exporters’ Associations (ITKIB): was established in 1937 with the aim of providing services in various sectors in various provinces of Turkey and increasing exports thereby to contribute to economic development.

• There are other institutions that are contributing to the leather sector in Turkey. These include Association of Turkey Leather Industrialists (TDSD), Eagan Footwear Sub-industrialists Association (EGEAYSAD) and Leather Technologists, Technicians and Chemists Association (DETEK).
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The diversification of markets has been one of the CICB’s bets. More than supplying China, Italy and the United States, traditional buyers, the project believes the Brazilian leather industry can expand its sales to alternative countries that demonstrate promising buying potential like: Spain, China, Poland, USA, India, Italy, Vietnam and Thailand.

Brazil exports leather to 80 countries like China, Italy and United States.

The leather sector in the country employs more than 40 thousand people all year round.

The Brazilian tanning industry is highly dispersed, with about 310 tanneries, which generate approximately 50,000 jobs, have modern manufacturing facilities and employ highly qualified labor.

Since 2000, the industry has invested millions of dollars in modernization and, today, it is one of the technologically best equipped sectors by international standards.

**Prospects of Leather Market in Brazil**

- **Population:** 207,353,391 (July 2017 est.)
- **Total GDP:** $3.219 trillion (2017 est.)
- **GDP/capita (PPP):** $15,500 (2017 est.)
- **Gini coefficient:** 49.7 (2014 est.)
- **Hide and skin production:** 310 tanneries
- **Market supply of Hides and Skins:** 40 million hides and 7 million skins per year
- **Consumption**
  - **Local:** $0.81 billion, 30% (2017)
  - **Export:** $1.9 billion, 70% (2017)

Source: CIA factbook 2018, CICB, 2018
The Brazilian Leather program, an initiative of the CICB and of the Brazilian Agency for the Promotion of Exports (Apex-Brasil), organizes the participation of Brazilian industrialists in major international fairs, designs the image of Brazilian leather through specialized media and carries out research to keep Brazilian leather always ahead of world market trends.

The constant training of professionals linked to the tannery chain in Brazil is undoubtedly one of those responsible for the improvement in management and technology that the country has. There are excellent tanning, chemistry and administration schools in Brazil, converging with frequent seminars, forums and congresses to discuss and present the best tanning practices in the world.

- Brazil has the largest commercial cattle herd in the world.
- Livestock farming GDP represents 30% of Brazil’s agribusiness GDP and 6.8% of the total GDP.
- Brazil has 209.13 million cattle heads over 167 million hectares. A stocking rate of 1.25 heads per hectare.

Export destination of RHS and leather by % (2017)

<table>
<thead>
<tr>
<th>Top 10 destinations</th>
<th>Percent of exports (2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>27.20%</td>
</tr>
<tr>
<td>Italy</td>
<td>16.8%</td>
</tr>
<tr>
<td>USA</td>
<td>16.5%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>5.3%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

Analysis of leather sector in Brazil

Animal husbandry conditions: mandatory identification, recording and reporting of individual cattle

Livestock Branding:
- System of Identification and Certification of Origin for Bovine and Buffalo (SISBOV) is the official system of animal identification in Brazil, designed to identify animal source (domestic or imported).
- The system, which is based on ear tags, matches the ear tags with individual animal certificates. The certificates, which are required if an animal moves to another premises, are a certification registered with the state government. The identification and certification procedures are done by private companies that have been contracted through the government.

Slaughterhouse conditions & Flaying techniques:
- People kill nearly 300 million beef cattle annually worldwide and Brazil is with the second largest rate with a kill rate of 43 Millions of cattle per year as of 2012.
- In 2010, the annual slaughter volume in Brazil has reached 60 million head of cattle including establishments registered with the Federal Inspection Service (FIS), the State Inspection Service (SIE) and the Municipal Inspection Service (MIS).
- With the slaughter of 43 million head in 2010, Brazil used 71% of its installed beef slaughter capacity. Slaughter levels in Brazil are rising due to strong domestic demand and improved export to non-traditional markets.

Hide and skin grading:
- Brazilian government, by 2002, made a first attempt to create a national grading system for bovine raw hide.
- A research conducted by the Brazilian Agricultural Research Corporation, EMBRAPA, suggested some improvements to the system and recommends the pursuing of automation to increase reliability using standard techniques, like color-based models and co-occurrence matrix-based texture analysis.
- Brazil is working to develop a completely automated system, based on computer vision, for bovine raw hide and leather classification and grading.

Source: Brazilianleather.com.br

Lessons learned for Ethiopia

- The need for strengthening animal husbandry and pre slaughter conditions in the country.
- The certification and origin registration system in commercial farms need to be out in place.
- The need to capacitate slaughterhouses with skilled personnel and equipment to ensure quality RHS.
- Enforcement of the national RHS grading and marketing is essential to ensure RHS quality consistently.
Preservation:
- Drum methods are mainly used, often in mixers, also soak and spray methods are possible.
- In Brazil Sodium chlorite is preferred to chilling, and rotating drums attached to trucks are used to treat up to 1000 hides with sodium chlorite during transport.
- These short-term preservatives are mainly used to hold hides for one to three days and it is not necessary to add a fungicide.
- For three to six days’ storage at 25°C, fungicides are included to control mold growth.

Transportation and Storage:
- Temperature loggers are used to monitor the temperature profile of hides during storage and transport.
- Low temperatures are maintained during transport and storage to avoid the occurrence of damage. If hides are left at body temperature for several hours before chilling to 20°C there will be deterioration within one day.

Analysis of leather sector in Brazil

Lessons learned for Ethiopia

- Perseveration while transportation is an innovative method that can be adopted in to the Ethiopian context, especially for RHS collected from formal slaughterhouses directly to the tanneries.
- Establishments of cold storage facilities in slaughter houses and collection centers helps in maintaining quality of RHS as petrification is one of the key challenges in Ethiopia.

Source: Meat technology update, 2006
Brazilians advocate free-range, cage-free and more “natural” production systems and the government policy does not prohibit export of any form of leather.

Analysis of leather sector in Vietnam

- Brazilian leather industry is connected to the nation’s creative potential and cultural richness.
- Design na Pele premier was launched in 2014 to present Brazilian leather materials and displays an array of ladies’ handbags, as well as bicycle saddle bags, women’s boots, picture frames, vases, kitchenware, gold leather arm cuffs and different home furnishings in leather.
- Brazilians advocate free-range, cage-free and more “natural” production systems and are against livestock production systems that they perceived to cause animal suffering or distress, limit the movement or the expression of some natural behaviors, and reduce animal health. For some, having a good life was a requirement if the animals are destined for human consumption.

Lessons learned for Ethiopia

- Base Ethiopia’s national leather marketing strategy on strategical selected social and cultural elements and build an acceptable brand.
- The free range approach to cattle rearing can be adopted to Ethiopia since the majority of cattle graze freely and commercial ranching accounts for very small component if the national livestock production.
- The Ethiopian government can go back and consider export of RHS (either pickle or Wet blue) to make sure local manufacturers earn forex; as long as they export certain predetermined finished leather. This can be used as an indirect incentive for the forms.

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Despite Ethiopia’s RHS resource, the industry suffers from poor utilization of hides.

Livestock
Ethiopia ranks 7th in the global livestock population; according to CSA livestock survey in 2016/2017:
- Cattle: 59,486,667
- Sheep: 30,697,942
- Goat: 30,200,226

Raw Hides and Skin
Ethiopia ranks 9th in the global Raw Hide and Skin with the kill rate of:
- Cattle: 7%
- Sheep: 33%
- Goat: 33%

Thus, every year Ethiopia typically produces:
- 4 mil of salted hide which is 110 mil sq.ft
- 20 million pcs of skins which is 80 mil sq.ft

Finished leather
- There are more than 26 tanneries
- Locally owned: 16
- Foreign owned tanneries: 10
- Total annual finished leather production reaching between: 120-135 million sq.ft
- Sheep and Goat: 80 million sq. ft.
- Cattle: 36 million sq. ft.
- Export: 60 million sq.ft ($69,552,960 dollar)

Footwear
- There are 16 local and 3 FDI footwear factories
- Total production: 7.81 mil pairs
- Export: 3.31 mil pairs ($38,567,000)

Gloves
- Three foreign owned factories
- Total production: 1.5 mil pairs
- Export: 1.26 mil pairs ($5,004,560)

Goods and Garment
- There are more than 30 factories with 19 exporting
- Total production: 1.3 mil pieces
- Export: $1.8 mil

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Over the last four decades, the GoE has made reforms to the sector to limit earnings from non-value add activities:

- **1973**
  - Formal RHS grade based export transaction started
  - Government managed corporation established

- **1986**
  - RHS export banned
  - RHS traders invested in tanning industries

- **2008**
  - 150% restrictive tax on pickle and wet-blue
  - Tanneries started making crust

- **2012**
  - Restrictive tax (150%) on all semi-processed leather items (150% export tax on crust)

The 2012 high export taxes affected both international buyers and some domestic tanneries. It diverted export destinations from European countries to Asian countries. Before the export tax, the main importers were Italy and the United Kingdom; after the export tax, exports diverted to China, Hong Kong, and India.
In addition to the reforms, there have been several strategies and roadmaps developed in the past 15 years, each of which have not met set targets

<table>
<thead>
<tr>
<th>Relevant period</th>
<th>Description</th>
<th>Implementing body</th>
<th>Achieved targets</th>
<th>Key challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-2020</td>
<td>The current government strategy for leather in support of the GTP II.</td>
<td>MOI, LIDI</td>
<td>Only few recommendations were acted up on</td>
<td>Supply chain, technology transfer high return markets, environmental management</td>
</tr>
<tr>
<td>2016 – 2020</td>
<td>Project activities to improve the supply and quality of hides and skin focusing on improving extension services on peri-slaughter and post-slaughter hides and skins management.</td>
<td>MOLF</td>
<td>• None/not implemented</td>
<td>Budget for implementation</td>
</tr>
<tr>
<td>2005 – 2010</td>
<td>Comprehensive study of the Ethiopian leather sector versus the then international market status with key recommendations on approaches to adopt</td>
<td>MOI, UNIDO</td>
<td>• LIDI was established                                                   • Sourcing hub – MBE was started</td>
<td>• Late start on positioning Ethiopia as sourcing hub (MBE), • Raw material quality suggestion</td>
</tr>
<tr>
<td>2016-2020</td>
<td>Animal health, Implementation of hides and skins trade regulations, develop market information flow mechanism on the price of hides and skins for producers and traders</td>
<td>MOLF, Bill &amp; Melinda Gates Foundation</td>
<td>• Project designed by MOLF                                                   • New proclamation developed and approved</td>
<td>• Project budget not approved • No enforcement of the new policy developed</td>
</tr>
</tbody>
</table>
The GoE has assigned priority to the manufacturing sector in GTP II. With one more year left in the GTP, Ethiopia is far from achieving its export targets.

The current national roadmap (GTP II) ends in 2019/20 at which point Ethiopia is predicted to have only met ~55% of its export target.

**Targets in GTP**
- The GTP2 plan targets growth in export value of leather and leather products.
- Special attention given to scale up the production of value add exports.
- Leather and leather products expected to contribute substantially to the growth of manufacturing sector and overall export earnings.

**Current Status**
- Ethiopia remains off target by ~60% in the current year with the strategy expected to end in 2019/20.
- If Ethiopia were to continue at the current growth rate of ~51%, only 55% of targets will be met by 2019/20.
- Foreign investments account for more than 75% of the total leather and leather products export.
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In addition to the government, several stakeholders are engaged in different aspects of the sector development, indicating a need for stronger collaboration.

**Key stakeholders and agencies involved in the sector**

<table>
<thead>
<tr>
<th>UNIDO</th>
<th>2017 – 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Covers small and Medium Size producers</td>
</tr>
<tr>
<td></td>
<td>• Creative Hub development (design, PDC)</td>
</tr>
<tr>
<td></td>
<td>• Cluster development (EFFICOS, LOMI, Bela, Mercato)</td>
</tr>
<tr>
<td></td>
<td>• Technical training and machinery support for cluster</td>
</tr>
<tr>
<td>JICA</td>
<td>2017 – 2020</td>
</tr>
<tr>
<td></td>
<td>• Technical and marketing support training on finishing leather with tanneries (ELICO and Bahirdar), footwear factories (Sheba, Ramsey and Tikur Abay), product factories (Yezichalem, Entoto, Kootket)</td>
</tr>
<tr>
<td>Solidaridad</td>
<td>2018 – 2020</td>
</tr>
<tr>
<td></td>
<td>• Chrome free tanning and market linkage with Netherlands buyers in partnership with STAHL</td>
</tr>
<tr>
<td></td>
<td>• Batu, Sheba and Walia tanneries</td>
</tr>
<tr>
<td>Enterprise Partners</td>
<td>2014 - 2020</td>
</tr>
<tr>
<td></td>
<td>• Leather processing technology in partnership with four chemical companies</td>
</tr>
<tr>
<td></td>
<td>• Finished leather marketing and communication</td>
</tr>
<tr>
<td></td>
<td>• Support footwear export and supply chain management with EIIDE</td>
</tr>
<tr>
<td>Ethiopian Competitiveness Facility (ECF)</td>
<td>ENDED</td>
</tr>
<tr>
<td></td>
<td>Cost sharing scheme for:</td>
</tr>
<tr>
<td></td>
<td>• Expat hire</td>
</tr>
<tr>
<td></td>
<td>• Website</td>
</tr>
<tr>
<td></td>
<td>• Fair attendance</td>
</tr>
<tr>
<td></td>
<td>• Certification</td>
</tr>
<tr>
<td>Transformation Triggering Facility (TTF)</td>
<td>ENDED</td>
</tr>
<tr>
<td></td>
<td>Cost sharing scheme for:</td>
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<td></td>
<td>• Expat hire</td>
</tr>
<tr>
<td></td>
<td>• Website</td>
</tr>
</tbody>
</table>

- Almost all donor-funded programs are engaged in technical support to domestic manufacturers.
- Absence of donor-funded programs in the following areas:
  - Improvement of RHS quality and supply
  - Enabling environment and policy
  - Cross cutting support areas in the sector
- Limited communication and collaboration between existing funds may lead to redundancy in efforts and inefficient use of resources.
Most donor programs are engaged in technical and marketing support to domestic manufacturers with few focusing on attracting foreign investment and supporting market linkages. No direct support is being given to improving the input supply of the sector as well as policy and enabling environment issues (1/2)

<table>
<thead>
<tr>
<th>Input supplies</th>
<th>Tanning</th>
<th>Finished products</th>
<th>Marketing</th>
</tr>
</thead>
</table>
| **DFID Enterprise Partners** | *December 2017 – December 2018*  
  *In partnership with EIIDE, support technical assistance for EIIDE to be a capable input importer and distributor for leather product factories* | *July 2016 – Dec 2018*  
  *In partnership with chemical companies, support technology transfer and new product and recipe development*  
  *LWG certification* | *April 2017 – Dec 2019*  
  *In partnership with MBE, support export marketing and communication services with technical assistance* |
| **UNIDO** | *Planning stage*  
  *Creative hub centre for SMEs to use for product development and designing* | *Timeframe – TBD*  
  *Advancing economic competitiveness by strengthening the leather value chain for tanneries moving/locating in Modjo leather city* | *Jan 2018 – Dec 2019*  
  *In partnership with technical agents, works with five selected domestic tanneries in improving communication and product sampling and production activities* |
| **JICA** | *2017 – 2021*  
  *Technical and marketing support training on finishing leather with tanneries (ELICO and Bahirdar)* | *2017 – 2020*  
  *Technical and marketing support training on finishing leather with footwear factories (Sheba, Ramsey and Tikur Abay),* | *2017 – 2020*  
  *Technical and marketing support training on finishing leather with leather good factories* |
| **Solidaridad** | *2018 – 2020*  
  *Chrome free tanning and market linkage with Netherlands buyers in partnership with STAHL*  
  *Batu, Sheba and Wallia tanneries* | | *Bringing in buyers for chrome-free finished leather from the Netherlands* |
Most donor programs are engaged in technical and marketing support to domestic manufacturers with few focusing on attracting foreign investment and supporting market linkages. No direct support is being given to improving the input supply of the sector as well as policy and enabling environment issues.

<table>
<thead>
<tr>
<th>Input supplies</th>
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<th>Finished products</th>
<th>Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transformation Triggering Facility (TTF)</strong></td>
<td>ENDED 2013 – 2018</td>
<td>4 million pound</td>
<td>Cost sharing scheme for technical assistance through hiring expat</td>
</tr>
<tr>
<td><strong>Ethiopian Competitiveness Facility (ECF)</strong></td>
<td>ENDED 2013 – 2018</td>
<td>4 million pound</td>
<td>Cost sharing scheme for: Expat hire/Certification Critical equipment purchase Systems</td>
</tr>
<tr>
<td><strong>DFID SITA</strong></td>
<td>ENDED 2014 – 2020</td>
<td>Supports facilitate East African businesses exporting to India, Indian companies importing from or investing in Africa and national trade and investment support institutions Investment and trade linkages between India and East Africa Strengthening trade and investment support institutions Enhancing Operational efficiency of companies and marketability of products and services</td>
<td></td>
</tr>
<tr>
<td><strong>DFID Invest Africa</strong></td>
<td>2017 – 2021</td>
<td>£16,397,262</td>
<td>Investment promotion to increase FDI flows to the manufacturing sector in four African countries – Leather being an area of focus (1) Investors engagement – building pipelines of investors and buyers (2) Government engagement - support the attraction and retention of more and stronger FDI in key manufacturing sectors (3) Coordination, Influencing and Knowledge Management: Coordinate with and influence relevant partners and programs to further the overall Invest Africa program.</td>
</tr>
</tbody>
</table>

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The Government of Ethiopia has put in place several incentives in order to promote sector activity. Few incentives exist to promote market access and operational efficiency.

**Key incentive categories**

- **Market Access (Revenue enhancing)**
  - Incentives that directly impact the revenue of the company (e.g., price and/or volume)

- **Tax and Finance (Profit enhancing)**
  - Incentives that directly impact costs, and consequently the company’s profit margin

- **Operational efficiency**
  - Incentives that facilitate setting up and running a business in the sector

**Incentive types**

1. Export incentives and facilitation
2. Second schedule
3. Voucher system
4. Custom duty exemptions
5. Duty drawbacks
6. VAT exemption
7. Access to finance
8. Foreign exchange
9. Bonded input supply warehouse

**Scheme Summary**

- Preferential treatment to most global developed markets (EBA, GSP, AGOA)
- Member of regional markets (member of IGAD & COMESA)
- Preferential treatment to accessories and inputs manufacturers focusing on import substitution through duty free privilege
- Exporters permitted to import pre-registered inputs without paying cash up front, settlement at year end in addition to import duty exemption
- 100% duty exemptions on capital goods & raw materials
- Fully exempt spare parts with value up to 15% of the total value of imported capital goods
- Up to 70% for new investments & up to 60% for upgrading projects; Interest rate of 10%
- Lease financing available through DBE on new or upgraded equipment; interest rate of 9.5% over 5 years with 40% down payment
- Working capital loan facilitation for exporters
- Export oriented manufacturers permitted to obtain capital/financing from foreign sources
- Preferential allocation provided to export oriented firms – however difficulty in practical terms
- Exporter retention account 70% for 28 days, 30% of foreign exchange earnings can be used to import raw materials at any time
- Warehouse scheme offered to input providers to sell product in local currency intended on reducing foreign exchange burden - but only serving less than 20% of the market
Barriers to benefitting from the schemes are largely due to bureaucracy, lack of institutional coordination and unnecessary penalization.

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5. Duty drawbacks
6. VAT exemption
7. Access to finance
8. Foreign exchange
9. Bonded input supply warehouse

**Summary of Challenges Faced by Firms**

- Lack of export market renders firms unable to benefit from preferential agreements
- Amount of time taken to approve already listed raw materials and accessories is lengthy (>4 weeks)
- Poor data management and coordination between LIDI and ERCA leads to delivery time of 4 weeks
- Poor record keeping by exporters leading to delays in utilizing voucher and high loss in productivity
- Lengthy time to clear goods and transport to site for use
- Tying up of working capital; cumbersome documentation requirements and delay on duty reimbursements
- Exempt from VAT on imported products
- Limited experience of lease financers makes process lengthy and difficult for loan applicants
- Firms state repayment period of 5 years is too low and opt not to use the leasing model
- Limited understanding of available working capital loans by firms
- Shortages around the country lead to lengthy bank processes despite preference
- Bonded warehouse meets <20% of total supply
- Tanneries make delayed payments
- Lack of availability of required chemicals
- High cost of transportation and warehouse rent makes final product cost very high
There are currently industrial parks dedicated wholly to leather production, however, planned Modjo Leather City aims to upgrade leather processing by reducing the heavy pollution footprint and requiring environmentally friendly processing.

Envisioned Modjo Leather City (MLC)

Basic Information
- **Location:** Modjo
- **Size:** 29,000ha
- **Composition:**
  - Common Effluent Treatment Plant (CETP)
  - Central Chrome Recovery Plant (CCRP)
  - Tanneries (~11% relocation of existing) and footwear factories (81% Domestic, 19% FDI)
  - Currently no space allocated to other finished products or accessories manufacturers

Amenities and supportive structures
- Centralized service centres (banks, post offices, training schools), 8% of total area.
- Maintenance shops, chemical storage (3% of total area)
- Green area (25% of total area)
- Land fill (3.5% of total area)

Planned implementation and status
- Phase 1: relocation of existing tanneries, waste treatment plant establishment, by product processing development. Currently, unclear status.
- Phase 2: tannery expansion; relocation of existing footwear factories and introduction new investments; recycling capacity upgrade. Currently, unclear status.

Phase one of the CETP design and budget approval are complete, aimed at treating waste of 31 tanneries.

**Envisioned Common Effluent Treatment Plant (CETP)**

**Basic Information**
- **Location:** Modjo
- **Size:** 100,000m²
- **Planned capacity:** annual treatment of 31 tanneries, ~60% of total solid waste production can be recovered and transformed
- **Estimated budget:** USD 57 million (Phase 1); additional phases not detailed
- **Estimated date of completion:** Not Known

**Design and operation principle**
- CETP integral part of MLC
- Currently no operator selected although framework has been designed
- Accommodate at least 10MWh/d or 1.25KWHh/m of wastewater.
- Initial 7 tanneries to be relocated are: Batu Tannery, Bale Tannery, Addis Ababa Tannery Wet End, Crystal Tannery, Dire Industrial, Hafde Tannery and Walia Tannery.

**Requirements for CETP industrialists**
- Daily recording and reporting of effluent
- Regular payments to cover treatment costs and operational maintenance of plant

**Technology and systems to treat waste**
- Preliminary treatments: bar screening, de-gritting and degreasing, fine screening;
- Primary treatments: separate equalization and sulphide oxidation for unhairing and other streams, followed by primary settling;
- Secondary treatments: denitrification- nitrification with settling;
- Sludge treatments: thickening, filter presses for dewatering & landfill disposal;
- Gaseous stream treatments: series of biological and chemical treatments through bio-trickling filters and chemical scrubbers
- Tertiary treatment plant: not considered in this phase of development.
In addition to government efforts, Huajian and George Shoe are constructing industrial parks dedicated wholly to production of leather and leather products.

**Ethiopia-China (Guandong) Huajian International Light Industry City**

**Basic Information**
- **Location:** Addis Ababa Lebu-Lafto area (southwest), 10km distance from airport
- **Size:** 137.8 ha
- **Total investment (USD):** USD 1 billion (current expenditure ~USD 72 million)
- **Expected job creation:** 30,000-50,000
- **Expected date of completion:** End of 2020
- **Expected export earnings:** USD 2 billion
- **Composition:**
  - Factory sheds for manufacturing of leather and leather products
  - Amenities and supportive structures
    - Staff apartments
    - Hospital
    - Sewage treatment plan
    - Industrial electricity sub station
    - Part service center
    - Common water plant
    - Hotel
- **Planned implementation and status**
  - Phase 1: relocation of existing tanneries, waste treatment plant establishment, by product processing development. Currently, unclear status
  - Phase 2: tannery expansion; relocation of existing footwear factories and introduction new investments; recycling capacity upgrade. Currently, unclear status

**George Shoe Industrial Park**

**Basic Information**
- **Location:** Modjo, Oromia Regional State
- **Total investment (USD):** USD 100 billion within the first five years
- **Expected job creation:** 20,000 (in the first five years)
- **Expected date of completion:** Unknown
- **Expected export earnings:** USD 200 million in the first seven years
- **Composition:**
  - Factory sheds for manufacturing of leather and leather products
  - Amenities and supportive structures
    - Staff apartments
    - Hospital
    - Sewage treatment plan
    - Industrial electricity sub station
    - Part service centre
    - Common water plant
    - Hotel
- **Planned implementation and status**
  - Phase 1: relocation of existing tanneries, waste treatment plant establishment, by product processing development. Currently, unclear status
  - Phase 2: tannery expansion; relocation of existing footwear factories and introduction new investments; recycling capacity upgrade. Currently, unclear status

**Source:** EIC, Ethio-China Huajian International Light Industry City: Economic Overview of Ethio-China Light Manufacturing Special

**Note:** Exchange rate applied for investment calculation 1RMB=USD 0.14 (September 2018)
Creating New Productive Capacity for the Leather Industry

National Leather Roadmap

Contents
1. Executive Summary
2. Project Scope and Approach
3. Global Value Chain: Leather and Leather Products
4. International Experience: Selected Case Studies
5. Ethiopia Leather Market and Value Chain
   • Background/overview
   • Sector policy and strategy
   • Stakeholder engagement
   • Current incentives
   • Value chain assessment
   • Assessment findings and Implications
6. Ethiopian Leather Sector Roadmap
7. Appendix
Overview of Raw Hides and Skins

RHS Trading Overview

**Animal husbandry**
- Animal holding practices and distribution around the country
- Small holder farmers (99.3%)
- Commercial farmers (0.7%)

**Production**
- Slaughter practices, either for domestic or export market
- Collection and preservation of RHS
- Export abattoirs (14)
- Domestic abattoirs (250)
- Backyard slaughter
- Formal live animal trade
- Informal live animal trading

**Trading**
- Trade, sales, direct procurement from production sources to tanneries
- Small scale brokers
- Medium/large brokers
- Traditional tanneries

- The proportion of livestock under commercial ownership/ranching model is estimated to be less than 1%
- Traceability and animal welfare issues are huge obstacles which need to be addressed through close knit collaboration between the Ministry of Livestock and other relevant stakeholders
- Trading of live animals in key areas is driven by the demand of the export abattoirs who have in turn driven down the slaughter age as a result of consumer demand pressures
- Younger animals being traded means limited usability of the skin and ultimately low product diversity and portfolio-this creates a limit on a firm’s ability to compete

Source: MOLF and ELRI (Ethiopia Livestock Sector Analysis) and LIDI (Tanneries Soaking performance analysis), 2017
Ethiopia’s livestock population is the largest in Africa, with strongest growth rates.
Productivity of RHS in Ethiopia remained lower than Africa and the world

Comparison of livestock population and RHS productivity

### Bovine Hides

<table>
<thead>
<tr>
<th>Location</th>
<th>No of cattle (mln head)</th>
<th>Share of global herd</th>
<th>Output of hides (mln pc)</th>
<th>Ratio of hide output to cattle head</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>1659.6</td>
<td>100</td>
<td>364.3</td>
<td>22.0</td>
</tr>
<tr>
<td>Africa</td>
<td>291.7</td>
<td>17.6</td>
<td>40.9</td>
<td>14.0</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>54.6</td>
<td>3.3</td>
<td>3.3</td>
<td>6.0</td>
</tr>
</tbody>
</table>

### Sheep Skins

<table>
<thead>
<tr>
<th>Location</th>
<th>No of sheep (mln head)</th>
<th>Share of global herd</th>
<th>Output of skins (mln pcs)</th>
<th>Ratio of output to sheep head</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>1163.7</td>
<td>100</td>
<td>550.0</td>
<td>47.3</td>
</tr>
<tr>
<td>Africa</td>
<td>301.8</td>
<td>25.9</td>
<td>110.8</td>
<td>36.7</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>26.2</td>
<td>2.3</td>
<td>8.7</td>
<td>33.2</td>
</tr>
</tbody>
</table>

### Goat Skins

<table>
<thead>
<tr>
<th>Location</th>
<th>No of goats (mln head)</th>
<th>Share of global herd</th>
<th>Output of skins (mln pcs)</th>
<th>Ratio of output to goat head</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>992.9</td>
<td>100</td>
<td>486.3</td>
<td>49.0</td>
</tr>
<tr>
<td>Africa</td>
<td>345.1</td>
<td>34.8</td>
<td>114.2</td>
<td>33.1</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>24.7</td>
<td>2.5</td>
<td>8.1</td>
<td>32.8</td>
</tr>
</tbody>
</table>

RHS Productivity Equivalent to Kill Rate

- Bovine Hides: 22.0%
- Sheep Skins: 36.7%
- Goat Skins: 33.1%

Live animal Value Chain in Ethiopia

- Several value chain actors and stakeholders actively involved in the trade of live animals
- Large traders become involved in the secondary market. Between 500 and 1000 shoats and ~250 cattle are sold at these markets
- Terminal markets are typically urban areas, largely Addis Ababa
- Trade volumes in the domestic market are driven largely by holidays and religious influences. During these periods, quantity of livestock traded may increase by 3 times
- Export market served by only two actors, in contrast to the domestic market in which there appears to be seven channels of live animal movement
- Export market is highly contingent upon demand generated by the Middle East as well as ability of the slaughterhouse to meet hygiene, safety and customer requirements
- Less than 3% of total livestock is traded for meat and live export
~40% of livestock is delivered for backyard slaughtering leading to significant loss in supply of RHS for tanning and finished products

Live animal Value Chain in Ethiopia

- Approximately 97% of meat produced ends up in the domestic market.
- Although the decrease in backyard slaughter practices is observed due to urbanization, increased awareness that 40% of livestock destined for slaughter is carried out in backyards.
- Currently, the two best/most reliable sources of RHS are through domestic and export abattoirs (~12%).

- Ethiopia’s competitiveness remains low in the export market due to market entry restrictions.
- Increased focus on quality of meat through use of feed is imperative to bring about change in the appearance of hides and skins. This also increases the acceptance of meat in the export market.
There are four major animal husbandry challenges which have a direct impact on RHS as an input for the leather industry.

### Animal Husbandry Challenges in Ethiopia

1. **Systems of raising livestock**
   - Inconsistent methods
   - Lack of solid base of commercial feedlot operation

2. **Disease Prevalence and Management**
   - Transboundary diseases
   - Access to medication
   - Absence of regulation and guidelines

3. **Transportation and handling**
   - Pre-loading
   - Transport to slaughter house
   - Loading and unloading

4. **Traceability**
   - Animal holding
   - Existing initiatives
   - Link to market access
Considerable volume loss of livestock (~13% of entire population) through traditional raising systems

<table>
<thead>
<tr>
<th>Method or system in place</th>
<th>Current practice/description</th>
<th>Impact or risk area affecting RHS as an input</th>
</tr>
</thead>
</table>
| Pastoral and agro-pastoral | • Communal rangeland used by multiple smallholder farmers  
• Limited use of crop residue, large reliance on grazing  
• 8-9 months/year of drought, 3-4 month of rainfall and improved pastures  
• Limited accessibility to health services/vaccinations | • Increased disease pool as well as transmission likelihood, difficulty in establishing traceability  
• Shortage in feed affects weight, quality of meat and hide (thinness)  
• Adverse effect on hides/skins due to poor nutrition and harsh conditions  
• Parasitic diseases reduce quality of RHS |
| Mixed crop-livestock | • Livestock reared largely for farming/ploughing  
• Fattening of small portion coincides with major holidays  
• Fattening not carried out throughout life of animal, only high end finishing | • Hides are marked by yolk lashes, skins affected by parasitic diseases  
• Inconsistency in supply, price hikes of up to 3x due to fluctuations and hoarding  
• Optimal quality of RHS not reached; grain of leather affected |
| Peri-urban and urban | • Largely small scale operations  
• Old oxen retired from farmland used for fattening  
• Crop residues and edible oil by products used for feed | • Contributes to less than 1% of total RHS supply  
• Visible scars and lesions despite improved feed  
• Positive impact on appearance/quality of RHS |
| Commercial feedlot | • Animals sourced from limited lowland areas  
• 90 day intensive feeding based entirely on agro-industrial inputs  
• Strict veterinary follow up and strong compliance to SPS requirements  
• Mainly export-oriented  
• Cattle and shoats selected for export are in prime condition | • Limited supply base of RHS (driven by abattoir and export market needs)  
• Desirable RHS  
• Reduction in parasitic and other skin diseases which affect RHS usability  
• Sufficient quantities of RHS cannot be sourced from this channel  
• Only 0.5% of total animals traded will yield RHS as by product through this chain |
Given prevalence of diseases, greatest potential likely to be exploited through increasing holding areas and commercial feedlots

## Disease prevalence and management

<table>
<thead>
<tr>
<th>Area</th>
<th>Current practice/description</th>
<th>Impact or risk area affecting RHS as an input</th>
</tr>
</thead>
</table>
| Major diseases                     | - Tick on tick borne diseases  
- Mange and mites  
- Lice  
- Keds  
- Lumpy skin disease (LSD)  
- Goat and sheep pox                                                                                                                                                  | - Holes and unhealed scars in hides visible on grain surface of finished leather  
- Small pinholes and scabies on RHS leading to production impediments  
- Intense itching and scratching create tough skin and wounds  
- Creation of nodules, creation of ‘cockle’ which reduces skin value; less tensile  
- Permanent lesions on the skin  
- Low healing leading to permanent scars; loss in potential supply                                                                                                   |
| Disease management                 | - Few nationwide campaigns against ecto-parasite and skin diseases  
- Considerable amount of illegal drugs entering peripheral areas of country  
- High recurrent health cost for reducing young stock mortality (89% and 93%) for cattle and sheep and goats, respectively  
- Limited access to vaccines and medication for priority diseases  
- Vaccination campaigns driven largely by outbreak occurrences                                                                                                                                                             | - Overall affected quality of RHS as a byproduct                                                                                     |
| Stakeholder coordination and resources | - National Skin and Hide Improvement Project aimed at bringing holistic improvement at national level through institutional coordination not in effect due to lack of funding/government endorsement                                                                                                                                                                | - Projects addressing issues related with animal disease have been inconsistent, hence persisting problems of quality of RHS                                                                                           |
Transportation, handling, traceability system as well as human treatment of animals have challenges affecting RHS as an input

3 Transportation and handing

<table>
<thead>
<tr>
<th>Method or system in place</th>
<th>Current practice</th>
<th>Impact or risk area affecting RHS as an input</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-loading</td>
<td></td>
<td><img src="#" alt="Bullet points" /></td>
</tr>
<tr>
<td></td>
<td>No separation of horned or non-horned animals</td>
<td>Specific brands caring about animal handling and transportation conditions prior to slaughter, hence barrier to access specific markets.</td>
</tr>
<tr>
<td></td>
<td>Methods of detecting stock diseases visual, no documentation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Trekking main form of transportation for primary producers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>No dedicated animal transportation vehicles</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Frequent whipping to herd cattle and shoats prior to aggregation</td>
<td></td>
</tr>
</tbody>
</table>

4 Traceability and humane treatment

<table>
<thead>
<tr>
<th>Traceability system</th>
<th>Current practice</th>
<th>Impact or risk area affecting RHS as an input</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Highly complex market structures with several actors</td>
<td>Traceability becomes very difficult, almost impossible</td>
</tr>
<tr>
<td></td>
<td>Limited or no awareness on traceability requirements</td>
<td>Limited market access for finished produced manufacturers</td>
</tr>
<tr>
<td></td>
<td>Poor enforcement of country traceability system, few grading experts</td>
<td>RHS potential remains low</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Humane animal treatment</th>
<th>Current practice</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Vehicles used to transport animals only at secondary and tertiary markets</td>
<td>Long distances travelled</td>
</tr>
<tr>
<td></td>
<td>Deprivation of water, feed and proper rest areas while trading</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Slaughtering systems</td>
<td></td>
</tr>
</tbody>
</table>
There are four common slaughter methods, two of which are formal and contribute to only 30% cattle hide and 10% sheep and goat skin supply to tanneries.

**RHS procured from both informal and formal channels and supplied to tanneries...**

**Actors**
- **Backyard slaughter**: Individual households in kebeles.
- **Rural slaughter slab operations**: Small rural areas close to butcheries.
- **Domestic abattoir**: Municipal abattoirs 250 in number (2016) Medium-large towns/cities.
- **Export Abattoir**: Export approved (14) ~80% based in Modjo.

**Method**
- **Backyard slaughter**: Manual backyard slaughter. No concrete floors, Limited water/power. 
- **Rural slaughter slab operations**: Small shaded areas. No concrete floors. Limited water/power.

**Proportion**
- **Backyard slaughter**: ~90% sheep and goat. ~30% cattle.
- **Rural slaughter slab operations**: Currently difficult to estimate, beyond government control.
- **Domestic abattoir**: 22.5% Sheep and goat. 98.6% Cattle (formal abattoir proportion tally to 100%).
- **Export Abattoir**: 77.5% sheep and goat. 1.4% cattle (formal abattoir proportion tally to 100%).

**RHS Quality**
- **Backyard slaughter**: Extremely flayed. Low usability. Poor preservation.
- **Rural slaughter slab operations**: Extremely flayed. Low usability. Poor preservation.
- **Domestic abattoir**: Flaying visible. Higher quality.

**Collection**
- **Backyard slaughter**: Difficulty in aggregation. Low collection rates.
- **Rural slaughter slab operations**: Difficulty in aggregation. Low collection rates.
- **Domestic abattoir**: Formal collection. Accessible sales channel. High buyer competition.
- **Export Abattoir**: Formal collection. Accessible sales channel. High buyer competition.

...has been declining between 2015/16 and 2017/18:
- Hides: 7% in 2015/16, 7% in 2016/17, 5% in 2017/18.
- Skins: 93% in 2015/16, 93% in 2016/17, 86% in 2017/18.

**Notes:**
- Approximately 1% cattle, 12.6% sheep and 8.5% goats are slaughtered by the livestock holders.
- As a result, majority of RHS supplied to tanners are sourced from non-holders.
- Long-term efforts to increase/improve household animal handling and slaughtering can bring about a considerable improvement in supply base for RHS.
Skins, where Ethiopian factories have established their competitive advantage, are sourced largely (~85%) from informal avenues - full economic benefits are not being realized.

**RHS supply to tanneries 2016/17 (total ~21 million RHS)**

- In 2016/17, approximately 80% of RHS (of which 8% and 92% was hides and skins respectively) received by tanneries were obtained from household backyards indicating considerable defects and consequent high cost of operation to tanneries.

**Source of Hides (total 1.6 million hides), 2016/17**

- In terms of skin supply, export abattoirs offer best skins typically obtained fresh, despite small share of contribution.

**Supply sources of skins (total 19.3 million skins), 2016/17**
Domestic abattoirs typically operate below capacity, the largest of which operates at 44% capacity.

**Domestic Abattoirs**

**Capacity**
- Most operate below installed capacity.
- Largest municipal abattoir (Addis Ababa) has an installed capacity of 1200 cattle per day and operates at between 37% and 44% capacity.

**Factors damaging RHS during slaughter**
- Hides and skins still removed by hand from carcass; appropriate technology does not exist.
- Limited training and supervision during removal process.
- Low worker incentive leading to poor and haphazard removal of hides and skins marked by excessive cuts.

**Veterinary follow up and supervision**
- Follow up is generally carried out on ante and post mortem inspection.
- Greater focus given to the quality of meat during slaughter rather than the hides and skins.
- Higher rate of supervision takes place for urban slaughterhouses rather than rural due to higher market size and large volume of meat.
Improvements in slaughtering and handling of animals can increase the quality of RHS by at least 30%, thereby decreasing the overall cost and increasing product diversity.

### Main Challenges Affecting RHS Quality

#### Challenges in slaughtering and handling
- Young slaughter age has a cascade effect on reduced size and thickness of raw material limiting product diversity
- Remaining animals are killed via non-abattoir routes heavily compromising quality and instigating complexity. Non-abattoir routes typically cause an extra ~30% quality deterioration to RHS
- Export meat market opportunities drive slaughter ages down

#### Post-mortem handling
- Salt availability and price is challenging collectors and traders
- Numerous post-mortem defects include (putrefaction of skins and hides before they reach tanneries; heat damage; grain crack; staining and soiling etc.)
- Reduced quality
- Area losses
- Limited product diversity

---

**Input Supplies**

- Raw Hides and Skins

**Tanning**

**Finished Product**
Following slaughter, RHS reaches tanneries through a complex network of aggregators and traders.
RHS Traders/suppliers also vary to a great extent on their RHS collection, handling and management capability and formal/informal roles they follow

**Tiers**

1. **RHS Traders (Large Traders)**
   - Have better financial capacity with relatively organized storing and transportation service.
   - Mainly residing in the big cities (Addis Ababa).
   - Usually give credit supply to tanneries without formal contract.
   - Sometimes blamed for hoarding.
   - Have also other businesses.
   - While such traders are estimated to be not more than 20-30, their share of supply is huge (>70%).
   - Some 7-10 traders have relatively dependable customer tanneries; though no contract practice.

2. **Suppliers and/or small traders**
   - Have limited financial and storing capacity.
   - Either formally operates with legal license or working as agent for big traders as the RHS marketing regulation says. Or carrying out the same role informally contrary to the regulation.
   - As the name indicates, they are usually supplying their collection for big RHS traders.
   - Their direct access to tanneries is limited and their share of supply is either overlapped to big traders or minimal if any.

3. **Collectors**
   - Have no working capital or store house.
   - Mainly work for big traders or suppliers with commission payment under the supervision of the formers.
   - Usually they are not permanent employees.
   - Have direct contact with the producers of RHS and have the negotiation opportunity but have limited technical knowhow on RHS quality, size etc.

Currently there are 1,977 (30-50 large traders) registered RHS traders across the country with only small average collection performance.

<table>
<thead>
<tr>
<th>Type</th>
<th>Total RHS received by tanneries (Pcs, mln)</th>
<th>Average collection per trader (Annual, Quarterly)</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hide</td>
<td>1.61</td>
<td>814, 271</td>
<td>NB: Some share were supplied to tanneries directly by abattoirs</td>
</tr>
<tr>
<td>Sheep skins</td>
<td>11.01</td>
<td>5,569, 1,396</td>
<td></td>
</tr>
<tr>
<td>Goat skins</td>
<td>8.28</td>
<td>4,188, 1,396</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>20.9</td>
<td>10,571, 3,524</td>
<td></td>
</tr>
</tbody>
</table>

Number of RHS traders by regions

Source: MoLF 2016/2017 report
Overall volume and price of RHS trading is low due to poor market linkage, availability of working capital and quality of product

<table>
<thead>
<tr>
<th>Type</th>
<th>Avg. unit purchase price (ETB), @ 1st level market</th>
<th>RHS purchase value estimate (transaction at 1st level market), (ETB)</th>
<th>RHS sales based on 15% mark-up, (transaction at 2nd level market), (ETB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cow hides</td>
<td>814</td>
<td>75</td>
<td>61,050</td>
</tr>
<tr>
<td>Sheep skins</td>
<td>5,569</td>
<td>40</td>
<td>222,760</td>
</tr>
<tr>
<td>Goat skins</td>
<td>4,188</td>
<td>25</td>
<td>104,700</td>
</tr>
<tr>
<td>Difference (ETB)</td>
<td></td>
<td></td>
<td>388,510</td>
</tr>
</tbody>
</table>

Source: EP analysis
In Ethiopia’s RHS market, supply is highly intermittent across months of a year and unit price is also highly volatile in those peak and slack production seasons.

With some slight difference for hides and skins, Sep-Oct, Jan and May-April are peak seasons of RHS supply and the rest are slack periods.

2009/2010 EFY RHS unit price was not only lower but also erratic along the supply peak and slack trend.
Domestic section overview - tanning

Tanning Process

Input
- RHS
- Chemicals
- Water
- Energy
- Fresh Air

Processing
- Tannery (Plant/Building)

Output
- Products
  - Wet-tanned
  - Crust
  - Finished Leather
- Effluent
  - For treatment
- Air Pollution
- Solid Waste
  - Processing
  - Disposal

Value chain assessment took place using the following:

- Assessment of tanning practices and operations carried out using common framework (left) and:
  - Domestic regulations and frameworks
  - Best available techniques (BAT) and Best Available Techniques Not Entailing Excessive Costs (BATNEEC): techniques defined by leading protocols and institutions
  - Leather Working Group (LWG): multi-stakeholder group (leading brands, retailers, chemical suppliers, technical experts whom have developed a recognized protocol to assess environmental compliance and performance capabilities of leather manufacturers

The following items were assessed

- Input supply (quality, quantity, consistency)
- Operations (capacity utilization, technology, skills & capabilities, environmental compliance)
- Products (quality, competitiveness)
- Supporting institutions and environment (legal framework, institutional support)

In order to...

- Identify key challenge areas
- Develop recommendations which promote growth of industry in line with global standards
- Develop recommendations which promote value of entire chain and increase export performance

Source: UNIDO, leatherworkinggroup.com
Key changes undergone by the tanning sector

Key factors which have driven changes in the sector over 45 years

Policy Change
Ban on semi-processed export

Govt Priority
for value addition within country factories

High demand from leather product

Transitions in the Ethiopian tanning sector

1973
Government managed corporation established

1986
RHS traders invested in tanning industries

2008
Tanneries started making crust

2012
Tanners transformed to the export of finished leather

Formal RHS grade based export transaction started

RHS export banned

150% restrictive tax on raw hides and skins, pickles and wet-blue

Restrictive tax (150%) on all semi processed

Input Supplies
Raw Hides and Skins

Tanning

Finished Product
Landscape: There are 33 tanneries of which 52% are wholly owned and 45% are foreign direct investments.

- Total of 33 registered tanneries, of which 24 are currently operational
- 14 FDI and 19 domestic firms
- Of the total daily capacity of 1 million sq ft, ~60% comes from FDIs
- Despite the difference in installed capacity, FDIs and local firms produced equal volume of leather
- FDIs focus more on skins than hides for quality purposes
- To date there is only 1 new firm (FDI) which has applied for a new license
In 2017, the soaking capacity remained at ~54%, with most of the firms producing sheep and goat leather.

### Installed Capacity vs Actual Capacity (2017)

- **>15,000**
  - 5 FDI
  - 5 Local
- **15,000 to 30,000**
  - 4 FDI
  - 5 Local
- **30,000 to 50,000**
  - 9 Local
- **50,000**
  - 5 FDI

### Actual Capacity Utilization

#### Domestic firm performance

- 2012/13: 0%
- 2013/14: 20%
- 2014/15: 40%
- 2015/16: 60%
- 2016/17: 80%
- 2017/18: 100%

#### FDI firm performance

- 2012/13: 0%
- 2013/14: 20%
- 2014/15: 40%
- 2015/16: 60%
- 2016/17: 80%
- 2017/18: 100%
The Leather sector gets 44% of hides and 94% of skins produced in Ethiopia

- RHS production is estimated at 3.6 million cattle hides, 9.7 million sheep skins and 10.7 million goatskins in 2016 (FAO's offtake rate)
- Traditional tanners around Bahirdar and Gondar consume significant number of hides for local uses. Some studies estimate that annually the consumption is about 600,000 hides.
- Collection rate of hides is low and significant amounts are being wasted in Addis Ababa.
Estimated/potential RHS production and aggregate tanneries soaking capacity are paradoxically mismatched or untapped

Estimated RHS production and supply gap against soaking capacity with respect to RHS received by tanneries
Currently, there are more than ten large international chemical suppliers supplying tanneries

Chemical companies supplying to domestic market

- Zschimmer & Schwarz
- Schill & Seilacher
- STAHL/BASF
- Codyeco (now Smit & Zoon)
- TFL
- Lanxess
- Trumpler

- Zschimmer & Schwarz
- Schill & Seilacher
- STAHL/BASF
- Codyeco (now Smit & Zoon)
- Cromogenia
- TFL
- Lanxess
- Trumpler

- STAHL/BASF
- Codyeco (now Smit & Zoon)
- C&E
- Repico
- Cromogenia
- Lanxess

Methods of acquiring chemicals

- Direct import from preferred suppliers
- Agents for smaller stock and quicker response time
- Bonded warehouse

• Chemical companies generally lead the innovation in leather globally and set the trend in the global leather industry.

• Chemical companies deploy technicians to tanneries worldwide to introduce new technologies and help tanneries troubleshoot.

Source: EP Analysis (EFY 2008)
There are currently four FDIs and one domestic company supplying chemicals to the sector through the bonded warehouse scheme.

**Bonded Warehouse Scheme**

- Incentive scheme developed to reduce working capital and forex constraints of export oriented firms in order to boost productivity, efficiency and competitiveness
- Allow foreign companies to assess the demand of its end users and adequately supply
- First company to use the bonded warehouse scheme was set up in 2011
- Expectation for all chemical companies using this scheme is to build a factory which will produce the required chemicals to the market, driven by needs assessment of factories year to year
- Chemical companies are also expected to be able to provide technical support and knowledge transfer through direct support and training to their end users. This is also a mechanism by which sales are expected to increase
- To date, 60% of listed chemical companies have either constructed a factory or plan to construct a plant in order to address the demand, both in terms of quantity and product pricing
- The remaining companies are not planning to construct plants either due to poor sales performance or assessment of market size as unattractive
- Products currently being produced in the country are fatliquors and degreasing agents

**Chemical companies using bonded warehouse**

<table>
<thead>
<tr>
<th>No</th>
<th>Company Name</th>
<th>Country</th>
<th>Date of operation</th>
<th>Current products and services</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>DSF International Trading Africa</td>
<td>China</td>
<td>2011</td>
<td>Basic chemicals</td>
</tr>
<tr>
<td>2</td>
<td>Tancuir Chemical for Africa</td>
<td>Spain</td>
<td>2013</td>
<td>Retanning chemicals</td>
</tr>
<tr>
<td>3</td>
<td>Repico Chemical for Africa</td>
<td>Italy</td>
<td>2013</td>
<td>Retanning chemicals, finishing and dye stuff</td>
</tr>
<tr>
<td>4</td>
<td>C&amp;E Limited India</td>
<td>India</td>
<td>2013</td>
<td>Retanning chemicals, finishing and chemicals</td>
</tr>
<tr>
<td>5</td>
<td>** Ethiopia</td>
<td>2013</td>
<td>Salt and chemicals (lime)</td>
<td></td>
</tr>
</tbody>
</table>

*Source: EP Analysis (EFY 2008)*
Only ~26% of total chemical was imported through the bonded warehouse scheme showing a strong preference for the end user to import inputs directly.

Breakdown of chemicals via different outlets:
- Majority of the chemicals are imported by end-users themselves, with bonded warehouses only supplying 26% of total chemicals between 2015 and 2016.

Basic chemicals imported (2015-2016):
- Chemicals include basic chrome sulfate, formic acid, sodium formate, sulfuric acid and mimosa.
- Bonded warehouses supply over half of basic chemicals with agents supplying a negligible amount.

Basic chemicals imported (2015-2016):
- Chemicals under this category are typically used for soaking, liming, de-liming, bating, neutralization, re-tanning, dyeing, fatliquoring and finishing.
- Factories import a higher percentage of chemicals under this category.
- In these 2 years, there has been a mismatch between the demand of the factories bonded warehouse quantities.
- Only 2 chemical companies have been able to supply the requested quantity of chemicals.
Significant challenges prevent the proper utilization of bonded warehouses for suppliers and benefits for end users

Key Challenges with Bonded Warehouse

| Company and product range | Shortage in availability of chemical companies
|                          | Existing few focus largely on supply of basic chemicals
| Demand estimation         | Most factories do not generate chemical requirement plans and are unable to accurately estimate/forecast demand for chemicals
| Finance and forex         | Suppliers face lengthy challenges when attempting to repatriate foreign currency following sales
|                           | End user who purchase chemicals though credit do not pay on time
|                           | Costly warehouse rent which appears to increase from time to time
|                           | Chemical companies who purchase using suppliers’ credit have to rely on availability of forex
| Customs and logistics practices | Customs and logistics authorities practices lead to delays in delivery time
|                           | Requirement of factories to use voucher system or pay VAT
|                           | Classification of chemicals as ‘RED’

Implications

- Challenges in finding chemicals with desired quality, quantity and price
- Suppliers unable to purchase and store chemicals reflecting needs of factories, leading to supply shortage
- Financial constraints on suppliers who in turn will not be able to supply chemicals in a timely manner or purchase advance stock to meet demand
- Factories are forced to seek alternative sources of chemical supply
- Final purchase price of chemical supplied through bonded warehouse is higher than products which are directly imported
- Factories seeking to use voucher system to gain benefits are unable to do so because of lengthy time
- Repeated search by customs authority as well as shortage of inspectors can lead up to 1 week to sell a product to a user
- Long period of time taken to release chemicals despite the repeated use in the sector
The doubling of design capacity in the tanning sector has done little to bring about significant increases in production and sales.

Annual production of leather (million square feet) by domestic firms

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/13</td>
<td>63</td>
</tr>
<tr>
<td>2013/14</td>
<td>60.7</td>
</tr>
<tr>
<td>2014/15</td>
<td>66</td>
</tr>
<tr>
<td>2015/16</td>
<td>58.6</td>
</tr>
<tr>
<td>2016/17</td>
<td>60</td>
</tr>
<tr>
<td>2017/18</td>
<td>22</td>
</tr>
</tbody>
</table>

Positive changes to production and capacity in last 8 years...
- >2x increase in design capacity
- Implementation of value addition strategies and policies

Existing trends in production
- No significant increases in production and sales volume
- No significant diversification in product and input utilization
- Limited value addition and finishing techniques
- Slight decrease in unit price
- Local tanneries especially face severe challenges in obtaining markets, thus affecting business viability
- FDI technology spillover not yet taking place

Production constraints faced by domestic and foreign firms differ greatly

**Domestic firms**
- Working capital constraints
- Weak technology absorption
- Challenging value-add policy which does not seem to reflect capacity
- Poor or limited ability to build trust with customers
- Considerable compliance challenges

**Foreign firms**
- Limited technology absorption related to locally available inputs
- Weaker value addition and limited price earnings
- Weaker backward integration
In general, total export of leather by tanneries has decreased since 2012/13

Tannery export performance

Overall export of finished leather has been on the decline between 2012/13 and 2016/17

Export Performance Domestic vs FDI

In 2009/10 sharp drop in finished exports by local tanneries due to shift towards export of finished leather only.

During this period, drop in exports could be attributed to pre-stock of global buyer in order to provide Ethiopian tanneries with sufficient time to upgrade technology.

Financial crisis also caused massive slowdown in purchase of leather.

2010/11: although global business environment improved, local tanneries could provide finished leather to compete on the global platform.

On the other hand, FDI tanneries showed a very strong leap in performance.
Although volume of exports has not changed significantly, the more concerning trend is the decline in export dollar value.

- Export sales volume hasn’t significantly increased over the years.
- In the years of 2014/15 and 2017/18 export value shows a decline of $16 million for the same volume of finished leather exported.
- Local tanneries are exhibiting a continuous decline over the last four years in export value of their finished product.
- The export value contribution gap between local and FDIs has been steadily increasing over the last four years.

### Export value of finished leather (‘000 USD) by company type

- **Beam house**
  - Export sales volume hasn’t significantly increased over the years.
  - In the years of 2014/15 and 2017/18 export value shows a decline of $16 million for the same volume of finished leather exported.
  - Local tanneries are exhibiting a continuous decline over the last four years in export value of their finished product.
  - The export value contribution gap between local and FDIs has been steadily increasing over the last four years.
Average export price for finished leather has suffered continual decline; 32% over five years

Finished Leather Exported 2012/13-2016/17

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume (Square feet)</th>
<th>Value (USD)</th>
<th>Average price per square feet (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/13</td>
<td>58,131,727.01</td>
<td>50,000,000</td>
<td>1.70</td>
</tr>
<tr>
<td>2013/14</td>
<td>62,425,306.58</td>
<td>55,000,000</td>
<td>1.56</td>
</tr>
<tr>
<td>2014/15</td>
<td>66,077,659.16</td>
<td>60,000,000</td>
<td>1.39</td>
</tr>
<tr>
<td>2015/16</td>
<td>63,187,341.19</td>
<td>65,000,000</td>
<td>1.16</td>
</tr>
<tr>
<td>2016/17</td>
<td>58,899,283.31</td>
<td>70,000,000</td>
<td>1.17</td>
</tr>
</tbody>
</table>
Average export price for finished sheep upper leather has suffered continual decline; 29% over five years.
Average export selling price for Goat Suede leather has declined; 22% over five years

Finished Goat Suede Leather Exported 2012/13-2016/17
Environment: Water consumption

Water Consumption

Key Findings
- Variations in water consumption between 15m³/ton to 80m³/ton of wet salted hides and nearly identical results in raw materials of same category.
- Water is drawn largely from rivers, lakes or drilled wells with hardly any industrial or control flow meters.
- Consumption of water is basically free of charge.
- There were no observed environmental impact assessments required by local government for water extraction practices, thus there is no measurement of the impact of the practice on the affected communities and to water supply in general.
- Global consumption of water is declining (UNIDO benchmark of <25m³/ton as maximum).
- Moving forwards, water must be classified as an essential process parameter.
- Constraints in assessing water consumption
  - Monthly data over at least 6 months required, but only 1 month data provided by LIDI and virtually no water consumption records kept by tanneries.

Data record
- No tanneries have flow meters installed and are unable to monitor use of water
- Monthly data over at least 6 months required, but only 1 month data provided by LIDI

Consumption
- Majority of tanneries have own boreholes ranging in depth from 37m to 135m.
- Pump installed to use water as needed.
- No environmental fee for the use of water and consequential environmental impact.
- Absence of fee is a lost revenue resource for the government and lacks any kind of enforcement on the waste and pollution side.

Source: UNIDO benchmarking, The Framework for Sustainability in Leather Production
Waste Water Pollution

- Globally, the textile and leather industries are known to expel effluent into water bodies with wastewater contaminated with substances such as chromium, sulphides, nitrogenous compounds and organic residues summarized as COD (chemical oxygen demand)
- Water is drawn largely from rivers, lakes or drilled wells with hardly any industrial or control flow meters
- Addis Ababa hosts about 65% industries of the country and more than 90% of the industries discharge their waste to nearby river “without proper treatment”, leading to heavy pollution of rivers and publicly available surface water resulting in the contamination of aquifers in and around the city of Addis Ababa
- EPA standards should be aligned with global standards such as the LWG and Best Applied Technologies (BAT)

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Limit Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Temperature</td>
<td>40 °C</td>
</tr>
<tr>
<td>pH</td>
<td>6 – 9</td>
</tr>
<tr>
<td>BOD₅ at 20°C</td>
<td>200 mg/l</td>
</tr>
<tr>
<td>COD</td>
<td>500 mg/l</td>
</tr>
<tr>
<td>Suspended solids</td>
<td>50 mg/l</td>
</tr>
<tr>
<td>Total ammonia (as N)</td>
<td>30 mg/l</td>
</tr>
<tr>
<td>Total nitrogen (as N)</td>
<td>60 mg/l</td>
</tr>
<tr>
<td>Total phosphorus (as P)</td>
<td>10 mg/l</td>
</tr>
<tr>
<td>Oils, fats, and grease</td>
<td>15 mg/l</td>
</tr>
<tr>
<td>Mineral oils at oil trap or interceptors</td>
<td>20 mg/l</td>
</tr>
<tr>
<td>Chromium (as total Cr)</td>
<td>2 mg/l</td>
</tr>
<tr>
<td>Chromium (as Cr VI)</td>
<td>0.1 mg/l</td>
</tr>
<tr>
<td>Chlorides (as Cl)</td>
<td>1000 mg/l</td>
</tr>
<tr>
<td>Sulphides (as S)</td>
<td>1 mg/l</td>
</tr>
<tr>
<td>Phenols</td>
<td>1 mg/l</td>
</tr>
</tbody>
</table>
Environment: Waste Water Test Results

Waste Water Test Results (2017)

- All of the tanneries are creating waste above the established limit

- Enforcement of regulations
  - Ethiopian Environmental Protection Agency (EPA)
  - Issues standards and limits but little to no enforcement and monitoring

- Treatment sites
  - Inefficient or poorly running treatment sites
  - Existing sites are not able to safeguard the environment
  - Challenges in treatment sites indicate challenges in technical set up of primary and secondary treatment plants
  - Existing waste water plants need to be upgraded in order to accommodate the volume of effluent production

Source: LIDI
Environment: Waste Water Test Results

Solid Waste generation - Globally accepted framework

<table>
<thead>
<tr>
<th>Input</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw hide: 1 tonne</td>
<td>Leather: 200 – 250 kg</td>
</tr>
<tr>
<td>Water: 15 – 50 m³</td>
<td>Waste water: 15 – 50 m³</td>
</tr>
<tr>
<td>Process chemicals: ~500 kg</td>
<td>Solid process residues ~450 – 730 kg</td>
</tr>
<tr>
<td>Energy: 9.3 – 42 GJ</td>
<td>Sludge from waste water treatment: ~500 kg at ~40 % dry matter content</td>
</tr>
<tr>
<td>CO₂: 230 – 250 kg</td>
<td>COD: ~200 – 250 kg</td>
</tr>
<tr>
<td>BOD: ~100 kg</td>
<td>Solids, shavings, trimmings: ~225 kg</td>
</tr>
<tr>
<td>SS: ~150 kg</td>
<td>Dust: ~2 kg</td>
</tr>
<tr>
<td>Cr: 5 – 8 kg</td>
<td>Trimmings: ~30 kg</td>
</tr>
<tr>
<td>Sulphide: ~10 kg</td>
<td>Emissions to air: Organic Solvents: 1 – 10 kg</td>
</tr>
</tbody>
</table>

How does Ethiopia perform against the global standards

In general, although standards were used to develop an assessment of waste generation, figures submitted by tanneries have made it impossible to generate a solid numerical analysis. Figures submitted do not correspond to the amount of leather produced. Qualitative assessment/conclusions have been presented above.

- No efficient waste management observed
- Leftover cutting and waste from RHS not collected or disposed of correctly
- Poor cutting techniques meant underutilization of leather and increased material waste
- Sludge disposal are not sufficient in size resulting in short time allocated for previous sludge to dry and be disposed of properly
- Range of sludge is BR 200-500
- Improper dumping on landfills in and around Addis Ababa
- No chemical tests available to assess consumption of sludge
- Monthly waste generation ranged from 1.5 tons/month to 500 tons/month
- Waste is not segregated and instead is mixed together. There are no existing incentives for recycling efforts as no markets exist. The consequence is that the entire waste load is dumped in the municipal landfill in the outskirts of Addis Ababa and Mojo

Materials/Process Waste

- Tannery (87%) performance in line with LWG protocol of between 26.8-160 MJ/m²

Energy Consumption

How does Ethiopia perform against the global standards

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- Leftover cutting and waste from RHS not collected or disposed of correctly
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- Tannery (87%) performance in line with LWG protocol of between 26.8-160 MJ/m²
In summary there are 5 major/core issues which must be tackled conscientiously in order to make the right impact on industry growth and attainment of export markets.

**Moving from a Vicious Cycle to a Virtuous Cycle**

**Low Business Equilibrium**
- Poor Environmental Situation
- Poor Raw Material Utilisation
- Supply Chain Difficult to Penetrate
- Lack of Foreign Currency
- Basic Technology Employed

**Commitment**
- Improved Environmental Situation
- Good Raw Material Utilisation
- Improved Capabilities, Growth and Profits
- New Supply Chain Opportunities for Export
- Improved Access to Foreign Currency
- Latest Technologies Employed

Given the nature of the industry and key findings through data analysis and personal interviews, it is important to note that the domestic firms suffer from larger set of issues and face greater risks than the FDIs.

Source: Leather expert
Creating New Productive Capacity for the Leather Industry

National Leather Roadmap

Contents

1. Executive Summary
2. Project Scope and Approach
3. Global Value Chain: Leather and Leather Products
4. International Experience: Selected Case Studies
5. Ethiopia Leather Market and Value Chain
   - Background/overview
   - Sector policy and strategy
   - Stakeholder engagement
   - Current incentives
   - Value chain assessment
   - Assessment findings and Implications
6. Ethiopian Leather Sector Roadmap
7. Appendix
## Key Findings: Tanneries Face Difficulty Ensuring Inputs are of Specified Quality for Use in Processing to Ensure Consistency of Production

<table>
<thead>
<tr>
<th>Key Finding</th>
<th>Implication</th>
<th>Domestic</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Considerable fluctuations in supply of RHS</td>
<td>Unstable price, fierce competition, hoarding</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Poor quality of skins due to ante and post mortem conditions</td>
<td>Low supply of adequate supply inputs</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Limited usability of bovine</td>
<td>Limited ability to use bovine leather to cover all typical bovine sectors - requirement to seek opportunities for this material outside of known diminishing product areas</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Inconsistent chemical supply and price</td>
<td>Working capital burden</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Limited knowledge in technologies and legislations</td>
<td>Limited new product development</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Improper labelling and storage</td>
<td>Limited ability to comply to global requirements</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Incoming input QC not carried out</td>
<td>Chemical not well protected, non-compliance to global requirements</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>No measures to track conformity</td>
<td>Negative impact on product consistency</td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>
Key findings: Workflow inefficiencies need improvements, quality needs to be ensured to bring about overall improvement of the ‘transformation’ process

<table>
<thead>
<tr>
<th>Key finding</th>
<th>Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Higher machine utilization at FDI’s</td>
<td>• FDI’s have strong order books, full overhead contribution being made. Converse situation for domestic firms</td>
</tr>
<tr>
<td>• Scattered production and disorganized WIP</td>
<td>• Little cost, time and quality improvements made due to lack of production streamlining</td>
</tr>
<tr>
<td>• QC checklist not in place</td>
<td>• Inability to ensure that product specifications and criteria are met - negative impact on customer and profit</td>
</tr>
<tr>
<td>• Limited on site testing laboratories</td>
<td>• Sub-optimal production efficiency, inability to save costs and increase margins.</td>
</tr>
<tr>
<td></td>
<td>• No genuine quality control and continuous improvement process possible</td>
</tr>
<tr>
<td></td>
<td>• Inability to evolve to meet changing buyer requirement and develop new products</td>
</tr>
<tr>
<td></td>
<td>• Limited ability to build buyer confidence</td>
</tr>
</tbody>
</table>
Domestic section overview – Finished Products

Value chain assessment took place using the following:

- Assessment of finished products manufacturing carried out using common framework (left) and:
  - Domestic regulations and frameworks
  - Best available techniques (BAT): techniques defined by leading protocols and institutions

The following items were assessed:

- Input supply (quality, quantity, consistency)
- Operations (capacity utilization, technology, skills & capabilities, environmental compliance)
- Products (quality, competitiveness)
- Supporting institutions and environment (legal framework, institutional support)

In order to...

- Identify key challenge areas
- Develop recommendations which promote growth of industry in line with global standards
- Develop recommendations which promote value of entire chain and increase export performance
Limited FDI investment in leather products manufacturing especially in footwear

Finished goods players in Ethiopia

- **Footwear**: One in Wukro (Tigray), one in Dukem (Oromia) the rest are concentrated in Addis Ababa
- **Gloves**: One in Gonder (Amhara), one in Bahirdar (Amhara) the rest are around Addis Ababa
- **Goods and Garment**: All are around Addis Ababa

Geographic distribution

- **Footwear**: 1 in Wukro (Tigray), 1 in Dukem (Oromia), rest in Addis Ababa
- **Gloves**: 1 in Gonder (Amhara), 1 in Bahirdar (Amhara), rest in Addis Ababa
- **Goods and Garment**: All in Addis Ababa

Source: Sector expert
Footwear brings the most export value [with FDIs contributing more than 80%] despite significantly below GTP II targets.

- Footwear export stands at 42% of government target.
- Gloves export stands 37% of the targets.
- 2017/18 footwear export stood at a total of $49 million, which is 33% of total leather sector related export.

Source: LIDI Report 2017/18
Domestic factories typically achieve between $10 to $20 per pair in the domestic market.

Domestic sales in mil USD

- Leather Cluster and Others: 56.07 mil USD
- Domestic Factories: 57.74 mil USD

Footwear produced (pairs)

- Leather Cluster and Others: 5,912,067 pairs (67%)
- Domestic Factories: 2,886,871 pairs (33%)

Reference price points

- Domestic price/MSMEs: 10
- Export price: 12
- Domestic price/large & medium companies: 20

Source: LIDI Report 2017/18
Locally owned footwear firms operate at a much lower capacity and have only exported 15% of total production in the last year.

Footwear manufacturers at a glance (2017)

<table>
<thead>
<tr>
<th></th>
<th>Domestic</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number</td>
<td>16</td>
<td>3</td>
</tr>
<tr>
<td>Installed capacity</td>
<td>4,901,400</td>
<td>5,544,000</td>
</tr>
<tr>
<td>(pairs/year)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capacity Utilization</td>
<td>56%</td>
<td>74%</td>
</tr>
<tr>
<td>(pairs/year)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Previous year capacity utilization (pairs/year)</td>
<td>2,744,784</td>
<td>4,102,560</td>
</tr>
<tr>
<td>Location</td>
<td>Addis Ababa and Wukro</td>
<td>Addis Ababa</td>
</tr>
<tr>
<td>Main products</td>
<td>Men’s Shoe</td>
<td>Both Men's and women’s</td>
</tr>
<tr>
<td>Export (% of production)</td>
<td>Average of 15% - 20%</td>
<td>100%</td>
</tr>
<tr>
<td>Export Value (USD)</td>
<td>6.5 million</td>
<td>32.1 million</td>
</tr>
</tbody>
</table>

Production/supply of footwear


- 2013: 5.26 million
- 2014: 6.19 million
- 2015: 7.88 million


- 2013: 19.1 million
- 2014: 30.5 million
- 2015: 34.5 million
- 2016: 34.9 million
- 2017: 38 million
There are four glove factories of which three are foreign-owned with export totaling at

Gloves manufacturers at a glance (2017)

<table>
<thead>
<tr>
<th></th>
<th>Domestic</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Installed capacity</td>
<td>258,000</td>
<td>2,180,100</td>
</tr>
<tr>
<td>(pairs/year)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capacity Utilization</td>
<td>25,000</td>
<td>1,853,085</td>
</tr>
<tr>
<td>(pairs/year)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Previous year capacity utilization (pairs/year)</td>
<td>Unknown</td>
<td>~ 1,250,000</td>
</tr>
<tr>
<td>Location</td>
<td>Bahirdar</td>
<td>Gonder, A.A.</td>
</tr>
<tr>
<td>Main products</td>
<td>Glove (golf)</td>
<td></td>
</tr>
<tr>
<td>Export (% of production)</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Export Value (USD)</td>
<td>73,000</td>
<td>5,164,570</td>
</tr>
</tbody>
</table>

Total export of gloves (2013-2017)

Export Value in mil USD

- 2013: 3.07
- 2014: 4.3
- 2015: 5.34
- 2016: 6.4
- 2017: 5.2
Main products produced in this sector are ladies’ bags and accessories

Garments manufacturers at a glance (2017)

<table>
<thead>
<tr>
<th></th>
<th>Domestic</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number</td>
<td>Over 34</td>
<td>2</td>
</tr>
<tr>
<td>Installed capacity (pairs/year)</td>
<td>Data unavailable</td>
<td>Data unavailable</td>
</tr>
<tr>
<td>Capacity Utilization (pairs/year)</td>
<td>Data unavailable</td>
<td>Data unavailable</td>
</tr>
<tr>
<td>Previous year capacity utilization (in %)</td>
<td>Data unavailable</td>
<td>Data unavailable</td>
</tr>
<tr>
<td>Location</td>
<td>A.A</td>
<td>A.A.</td>
</tr>
<tr>
<td>Main products</td>
<td>Ladies Bag, Accessories</td>
<td>Ladies Bag</td>
</tr>
<tr>
<td>Export (% of production)</td>
<td>Data unavailable</td>
<td>100</td>
</tr>
<tr>
<td>Export Value (USD)</td>
<td>1.8 mil</td>
<td>140,000</td>
</tr>
</tbody>
</table>
Key findings: total leather and leather products exports has generally increased over the last eight years

Conclusions from Export Performance (in’000 USD)

- Export of Sheep and Goat leather continues to be the main contributor for Ethiopian export value in the Leather category.
- Export of Bovine Finished leather is not performing with actual figures only 1% of the country export value of Leather and Leather goods.
- Footwear contributes to the majority of exports at 85% followed by gloves accounting for 9% of the exports.
- Export of Leather Garments and Leather Bags combined contribute 6% of export value.

Overall Export performance in ‘000 USD of leather firms

- Glove
- Other leather product
- Shoe factory
**Key findings:** Inconsistencies in raw material quality and accessories supply compromises company performance (1/2)

### Key finding

- Low quality and inconsistency (thickness and color) material received tanners
- Minimum Order Quantity requirements preclude small-scale players from acquiring required inputs
- Lack of domestically available export standard supply of accessories and components
- Between 65% and 70% of required accessories and components must be imported
- Inbound materials typically takes up to 90 days to reach manufacturers

### Implication

- Low end product quality and high product recall costs
- Reduced credibility as supplier
- Signals weak relationship with buyers
- Considerable drop in capacity utilization
- Higher per unit cost-low competitiveness of firms
- Limited product range that can be produced
- Working capital burden
- Delay caused by forex shortage leads higher product price (air freight often required)
- Huge industry forex burden
- Finished product manufacturers unable to communicate product lead time or meet on-time delivery request which translates to loss in market and profitability
- May lead to larger inputs inventory and tying up of working capital to mitigate inconsistencies

<table>
<thead>
<tr>
<th>Domestic</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>✓</td>
<td>✓</td>
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<tr>
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<td>✓</td>
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</tr>
<tr>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

**INPUT SUPPLY & MANAGEMENT**

- **Leather**
- **Accessories**
- **Transportation**

**Input Supplies**
- Raw Hides and Skins

**Tanning**

**Finished Product**
**Key findings:** Inconsistencies in raw material quality and accessories supply compromises company performance (2/2)

<table>
<thead>
<tr>
<th>QC/QA</th>
<th>Key finding</th>
<th>Implication</th>
<th>Domestic</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Limited or no physical tests on incoming inputs</td>
<td>• Inability to ensure quality of the material being used in the production process</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Most firms are not requesting certifications from tanners on the leather inputs</td>
<td>• Non-compliance to buyer requirements in export market</td>
<td>✔️</td>
<td></td>
</tr>
<tr>
<td>Key finding</td>
<td>Implication</td>
<td>Domestic</td>
<td>FDI</td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------</td>
<td>----------</td>
<td>-----</td>
<td></td>
</tr>
<tr>
<td>Considerable capacity in domestic firms, yet utilization is under 50% industry wide</td>
<td>High unit costs, overheads leading to low level of competitiveness</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Limited and costly operating space, especially leather goods manufacturers</td>
<td>Limited growth in product, firms unable to gain from economies of scale</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Poor and inconsistent quality</td>
<td>Poor understanding of total quality management</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Weak knowledge of TQM practices</td>
<td>Challenges in raw material control, management practices, training, skills adequacy</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Persistent loss of market for firm</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lack of understanding of export market requirement</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Lack of PDC facility in most plants</td>
<td>No rapid prototyping or quick response on samples</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Pre-production takes up to 74% of total manufacturing time</td>
<td>Little or no inventory or material planning</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Limited product diversity (i.e. ladies shoes)</td>
<td>Limited sources of revenue, low capacity utilization, limited understanding of market potential</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Low skill in finishing department</td>
<td>Low quality end products, loss in market</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>High turnover in stitching department (average 26% with some reaching 80%)</td>
<td>Average industry benchmark is 10% turnover—efficiency is being dedicated towards training time</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Considerable cost category</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>
Six categories of cross-cutting constraints have been identified in the sector.

Specific findings under each category are elaborated upon in the sections below. Findings are based on document review, stakeholder consultations and interviews with stakeholders and firms.
# If we cannot measure it, we cannot control it!

## Key finding

<table>
<thead>
<tr>
<th>Water</th>
<th>Effluent Discharge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor measurement and control of water consumption in industry</td>
<td>Lack of environmental or usage fees of water for tanneries</td>
</tr>
<tr>
<td>Poor record keeping for LWG certification</td>
<td>Overall effluent treatment challenges</td>
</tr>
<tr>
<td>Under capacity of holding tanks in relation to daily volumes discharged</td>
<td>Poor and irregular discharge value record keeping</td>
</tr>
</tbody>
</table>

## Implication

<table>
<thead>
<tr>
<th>Domestic</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tanneries unable to measure consumption; develop improvements related to production and efficiency</td>
<td>✓</td>
</tr>
<tr>
<td>Lack of responsible awareness of finite natural resources</td>
<td>✓</td>
</tr>
<tr>
<td>Inability to fulfill LWG regulations, hindrance to global market entry</td>
<td>✓</td>
</tr>
<tr>
<td>EPA non-compliance and lack of enforcement</td>
<td>✓</td>
</tr>
<tr>
<td>Could mean discharge to rivers and sewer systems, pollution of potable water sources</td>
<td>✓</td>
</tr>
<tr>
<td>Unacceptable for world class facilities</td>
<td>✓</td>
</tr>
<tr>
<td>Strong potential risk negative public campaign</td>
<td>✓</td>
</tr>
</tbody>
</table>
If we cannot measure it, we cannot control it!

### Waste Generation

#### Key finding
- Waste water sludge improperly processed due to high incidence of malfunctioning equipment and insufficient space allocated for removal
- Little or no waste segregation, no distinct waste holding sites
- Poor waste management records
- Limited cutting skills resulting in high solid waste

#### Implication
- Increased disposal cost and increased harmful waste
- Inability to recycle, long-term environmental degradation
- Inability to recycle, long-term environmental degradation
- Difficulties relating to achieving LWG status - brands will not accept such situations
- Reduced cutting coefficients lead to greater waste and reduced profitability

<table>
<thead>
<tr>
<th></th>
<th>Domestic</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased disposal</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Little or no waste</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>segregation, no</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>distinct waste</td>
<td></td>
<td></td>
</tr>
<tr>
<td>holding sites</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor waste</td>
<td></td>
<td></td>
</tr>
<tr>
<td>management records</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Limited cutting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>skills resulting in</td>
<td></td>
<td></td>
</tr>
<tr>
<td>high solid waste</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
If we cannot measure it, we cannot control it!

<table>
<thead>
<tr>
<th>Key finding</th>
<th>Implication</th>
<th>Domestic</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Majority of tanneries unaware of Restricted Substances List (RSL), MRSL, ZDHC requirements by brands</td>
<td>Inability to work with numerous global brands, limiting export opportunities</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Majority of tanneries unable to verify compliance of finished products to international or specific RSL standards</td>
<td>Products above legally established limits cause for product recall leading to high financial penalties</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Limits access to market</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chemical Management Systems not clearly evident</td>
<td>Safety Data Sheet and applicable Personal Protective Equipment for the workers is necessary for the handling and storage of chemicals and brands/customers care about this</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Little/no awareness and limited interest to comply by the multi-stakeholder Leather Working Group (LWG) auditing protocol</td>
<td>Inability to demonstrate that leather is being made in a sustainable manner</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Almost all domestic firms do not possess a dedicated strategic plan - clear objectives supported by strong market intelligence are needed

### Key finding

- Over 90% of firms stated that marketing and sales strategy not in place
- Weak export linkages or knowledge of how to attain export market
- Inability to generate business from exhibitions and fairs
- Limited understanding of post sales service

### Implication

Firms unable to understand
(1) Market and customers
(2) Expected product pricing
(3) Product requirements, especially quality
(4) How sales will be limited

**Therefore brings into question company viability and longevity**

- Firms are not developing strong and long-lasting relationships with buyers
- Firms unable to build competitive advantage which will translate to increased earnings

### Domestic | FDI
---|---

- Yes
- Yes
- Yes
- Yes

---

**Marketing & Sales**

---

**EXPORT & INVESTMENTS**

---

2

---

149
Minimal focus has been applied on developing tailored marketing campaigns and ensuring compliance to global customer requirements in order to improve export market position.

### Certification

- Unclear as to whether leather exports are being correctly certified for conformance to specification, RSL

### Key finding

- Major challenges related to transit companies
- Delay of delivery of final goods in export market at least 25% of the time
- Delivery lead times take up to 42 days

### Implication

- Breakdown of customer-supplier relationship arising from non-compliance
- Delayed receipt of goods – penalties will be incurred
- Repeated business/order cancellations, penalty costs due to delays
- Average transit and delivery time in other countries is 4 weeks, Ethiopian goods are arriving with 50% additional delay i.e. 6 weeks

<table>
<thead>
<tr>
<th>Domestic</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>
Working capital challenges remain one of the largest bottlenecks in a firm’s infrastructure

<table>
<thead>
<tr>
<th>Key finding</th>
<th>Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Inability or limited access to foreign currency</td>
<td>- Tying up of working capital</td>
</tr>
<tr>
<td>- Challenges around accessing retention account</td>
<td>- Inability to purchase raw materials and inputs</td>
</tr>
<tr>
<td>- Financial institutions’ loan products do not always suit needs of manufacturers</td>
<td>- Loss of orders due to customer dissatisfaction with late delivery</td>
</tr>
<tr>
<td>- ~60-70% of materials are imported</td>
<td>- Challenges in upgrading machinery and equipment, working capital tie-ups create operational challenges</td>
</tr>
<tr>
<td>- Frequent and extreme shortages in working capital</td>
<td>- Burden on operational and financial efficiency</td>
</tr>
<tr>
<td>- Barriers to accessing finance due to high requirements set by lending institutions</td>
<td>- Hampers production efficiency and utilization</td>
</tr>
<tr>
<td>- ~80% of tanneries facing financial constraints</td>
<td>- Difficulty to increase volumes of production</td>
</tr>
<tr>
<td>- Resource constraint</td>
<td></td>
</tr>
<tr>
<td>- Tendency for international buyers to shift orders towards FDIs with stronger financial resilience</td>
<td></td>
</tr>
</tbody>
</table>
Increased collaboration between LIDI and ERCA may lead to improved performance and price competitiveness

<table>
<thead>
<tr>
<th>Key finding</th>
<th>Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Laboratory facility under utilized and out of conformance limiting the quality of services that could be provided</td>
<td>Inability to provide credible test results to buyers</td>
</tr>
<tr>
<td>Level of technical training by LIDI is a mismatch to the required standards for modern day tanneries and export market</td>
<td>Reduced credibility as supplier</td>
</tr>
<tr>
<td>Product development using latest technology and communication of latest standards from the global industry is limited or non-existent</td>
<td>Low end product quality and high product recall costs</td>
</tr>
<tr>
<td>Weak coordination between ERCA, LIDI and MOTI leads to low benefits from voucher system</td>
<td>Manufacturers not having dependable support service for technology, testing, training and PDC</td>
</tr>
<tr>
<td>Bonded warehouse system faces implementation challenges</td>
<td></td>
</tr>
<tr>
<td>Bonded warehouse suppliers facing challenges on repatriation</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Domestic</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td>✓</td>
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<tr>
<td>✓</td>
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<td>✓</td>
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<tr>
<td>✓</td>
<td>✓</td>
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<tr>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

- Users less likely to use voucher system which undermines incentive; delays in clearing requirements of voucher system lead to lengthy delays in obtaining business license and subsequent ability to export
- Bonded warehouse system not serving the industry
## Bottlenecks in the customs and logistics sectors ultimately causes export delivery delays

### Key finding

- Lengthy clearing time for inputs and accessories for finished product manufacturers
- Lengthy time taken to clear inputs for tanning

### Implication

- Delay in delivering export orders is longer than leading practices. In turn, producers risk loss of customers and repeat business
- Negative cumulative effect on entire supply chain, leading to delays in inputs to finished product manufacturers

<table>
<thead>
<tr>
<th>Domestic</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>
High production staff turnover rates makes training costs a high cost component for most finished products manufacturers

<table>
<thead>
<tr>
<th>WORKFORCE</th>
<th>Key finding</th>
<th>Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Production Staff</strong></td>
<td>• High production staff turnover due to poaching and labor grievance challenges</td>
<td>• High training costs</td>
</tr>
<tr>
<td></td>
<td>• High shortage in technical skills and know how (practical training)</td>
<td>• Poor process efficiency and quality assurance</td>
</tr>
<tr>
<td></td>
<td>• High dependence on foreign expertise for operations, with uncertain transfer of knowledge</td>
<td>• Poor internal skill inventory</td>
</tr>
<tr>
<td></td>
<td>• Executive and management training not evident beyond company owners</td>
<td>• High training costs, high per unit production</td>
</tr>
<tr>
<td></td>
<td>• High turnover of skilled labor</td>
<td>• Training costs may not be fully capitalized upon</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management &amp; skilled labor</th>
<th></th>
<th>Domestic</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>• High turnover of skilled labor</td>
<td>• Inability to create stability and consistency in operations</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Leakage of know-how and skills in the business</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
Creating New Productive Capacity for the Leather Industry

National Leather Roadmap

Contents
1. Executive Summary
2. Project Scope and Approach
3. Global Value Chain: Leather and Leather Products
4. International Experience: Selected Case Studies
5. Ethiopia Leather Market and Value Chain
6. Ethiopian Leather Sector Roadmap
   - Prioritized bottlenecks
   - Detailed recommendations with time-line
7. Appendix
Although there are several challenges in this complex sector, only priority gaps will be addressed in this section of the report. Gaps are prioritized as per the criteria below:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandatory requirement &amp; global buyer standards</td>
<td>Reflects that buyer requirements must be met, while also adhering to the global standards. This would have a direct impact on the export market.</td>
</tr>
<tr>
<td>Internal or external nature of the gaps which have been identified (firm-level vs. industry)</td>
<td>Identified gap cannot be largely firm level, but extend to the larger ecosystem; likelihood of leading to structural changes.</td>
</tr>
<tr>
<td>Level of impact on production</td>
<td>Negative impact on production which is considerable (leading to more than 20% drop in capacity utilization).</td>
</tr>
<tr>
<td>Forex burden</td>
<td>Reduce reliance on forex for operations; promote direction towards improving export growth.</td>
</tr>
<tr>
<td>Impact on sustainability and competitiveness of domestic firms</td>
<td>Supports growth and competitiveness of domestic firms.</td>
</tr>
<tr>
<td>Impact on exports</td>
<td>Level of impact on export growth.</td>
</tr>
</tbody>
</table>
As per the criteria the following are focus areas for the shortlisted gaps in the core value chain activities:

<table>
<thead>
<tr>
<th>Raw hides and skins</th>
<th>Inputs (chemicals and accessories)</th>
<th>Production</th>
<th>Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply</td>
<td>Quality management</td>
<td>Supply consistency and standards</td>
<td>Marketing efforts</td>
</tr>
<tr>
<td>Input pricing</td>
<td>Animal health practices</td>
<td>Conformity</td>
<td>Linkages to international buyers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Delivery lead times</td>
<td></td>
</tr>
</tbody>
</table>

**Internal-focused**
- Technology and skills
- Chemical technologies/laboratories
- Modern production systems
- Quality management systems

**Global market focused**
- Customer requirements
- International standards
As per the criteria the following are focus areas for the shortlisted gaps in the supporting environment (cross-cutting):

<table>
<thead>
<tr>
<th>Shortlisted gap areas - Cross cutting functions</th>
<th>Export and investment</th>
<th>Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product branding and promotion</td>
<td>Attracting quality investment</td>
<td></td>
</tr>
<tr>
<td>Foreign exchange</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic regulation compliance</td>
<td>Water consumption and waste</td>
<td></td>
</tr>
<tr>
<td>Effluent treatment</td>
<td>Global standards compliance</td>
<td></td>
</tr>
<tr>
<td>Delivery time for inputs and materials</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working capital</td>
<td>Foreign exchange</td>
<td></td>
</tr>
<tr>
<td>Performance-based incentives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased coordination between institutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skilled workforce development</td>
<td>Employee workplace safety</td>
<td></td>
</tr>
<tr>
<td>Employee retention and worker support</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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7. Appendix
Ethiopia would be Africa's largest manufacturing hub for leather products, mostly using high quality raw hides and skin and leather produced in country. This would be achieved by quality FDIs and domestic investors, resulting in export earnings, decent factory job opportunity for youth and women, and income opportunities for farmers and traders. Ethiopia would achieve this with high standard of environmental and social compliance.

**Quality FDI**

- Technology transfer and skills
- Domestic investment
- Increased efficiency & optimization in manufacturing, leading to higher export
- Increased supply of quality leather and RHS in Ethiopia
- Efficient supply chain and import

**Domestic investment**

**Improved Business Climate**

**Environmental Standard**

**More Quality FDIs**

**TA to Domestic Investors**

**Performance based incentives**

**RHS Management**

**Vision 2025**

- Top brands as clients
- Quality of RHS
- Environmental Sustainability
- Vision 2025 Achieved
- Highly Skilled Workforce

**Theory of Change**

- 2019-2021
- 2019-2025
The recommendations are developed to address prioritized gaps focusing on core value chain and support functions that affect the whole leather sector.

1. Sector Structure and Positioning
   - **Input supply**
     - Raw hides & skins
     - Chemicals and accessories
     - Water & energy
   - **Production process**
     - Tanning
     - Leather products manufacturing
   - **Marketing**
     - Domestic market
     - Export market

2. Cross-cutting Functions
   - **Cross-cutting**
     - Export and investment
     - Finance, customs and logistics
     - Incentives
     - Environmental sustainability
     - Institutional coordination
     - Workforce development
Recommendations focusing on sector positioning and structure

1. "Top-down pull" and "bottom-up" approach

2. Do not Restrict - Incentivize!

3. Drive real value addition from final product manufacturing not only from finished leather

4. Ensure proper gain from export earnings as compared to raw material value + value addition

Implementation Timeline

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Both “top-down pull” and “bottom-up” approach needs to be applied to the Ethiopian leather sector, thus creating an integrated value chain as well as the need to focus on its resource base.

### Specific Constraint

- Not enough final product manufacturing taking place in the country which brings significantly more value and employment
- Poor and declining raw material – it is a resource based sector for Ethiopia to capitalize on

### Context

Ethiopia was not able to build strong and large leather product manufacturers. It also has a declining raw material quality that is also not getting demand in the global market when transformed by local tanneries. While the amount of investment that is needed to transform leather from raw to finished is significant in comparison from raw to pickle/wet-tanned, the major financial gain comes from transforming finished leather to final product.

### Details of Recommendation

- Consider the release of semi-finished product to the global market [low grade]
- Invest heavily in getting the product manufacturing base (bring the entire value chain within the country)

### Ownership

- MOTI

### Benchmark

- Countries like India banned semi-processed leather export however has succeeded in creating product manufacturing industry
- Indonesia also has a ban on exporting semi-processed material, and ensures it is consumed within by product manufacturers for global brands
- Italian manufacturers specializes within clusters
- Brazil supplies all levels of semi-finished leather as well as products to the global market
## Specific Constraint

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<td>Weak competitiveness of the sector internationally (weak positioning)</td>
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<td>Local actors dying out – risk of dominance by foreign actors</td>
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<td>Low grade materials not being utilized, or are underutilized, within the country (including FDI product manufacturers)</td>
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<td>Not enough product manufacturers to utilize existing leather produced</td>
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## Context

The sector hasn't seen a significant gain from the value addition policy change. Leather sector and its respective markets are complex and have their own different competitiveness aspects, dominated by leather product type to be generated. To ask manufacturers to be specialized along the value chain since it is complex and requires huge amount of investment. As an example the cost, complexity and capital investment of machinery to transform RHS into a finished leather is typically far more than if only processing from RHS through to pickle, and this is exacerbated if low grade material requires major upgrading technology to be employed.

The core of the current policy is beneficial as it fuels the products market in Ethiopia. However, two of the major FDIs supply themselves from their own tannery. At the moment, there is not enough product manufacturers to consume the finished leather that is being produced by the existing tanneries. For the tanneries to go out and look for finished leather buyers has proved to be a daunting task and not a successful one. Strategic risk to the country if the leather actors are only going to be FDIs.

## Details of Recommendation

- Put mechanisms in place for exporting low grade materials in semi-processed state as it will be better to at least gain ‘costs’ for such material rather than it become a burden and ultimately a financial loss
- Put incentives to attract product manufacturing in country to absorb local tannery leather production
- Ensure that the locally owned tanning industry remains, ensuring the future-proofing of RHS transformation processing of Ethiopian material
- Allow tanneries to decide how to segment the transformation process which could provide more focused and specialized production

## Ownership

- MOTI

## Benchmark

- Some of the Italian manufacturers specialize within the leather producing ‘clusters’
- Brazil has one of the most successful leather industry with their actors doing both semi-finished, finished leather as well as final products
- Many tanners in other countries ‘cream off’ the better material for themselves and sell the lower grades to other tanners around the world
Drive real value addition from final product manufacturing not only from finished leather

Specific Constraint

- Value addition policy is not actually creating value
- Weak market access to finished leather due to weak relationships and quality/price command
- Pricing of leather exported seems to be varied and have a relatively low selling price

Context

Both semi-finished and finished leather are inputs to the leather sector in its entirety. The historical rule of thumb in the leather sector for normal/standard/commodity type finished leather, is that raw material counts for 50 - 60% of the total finished leather price. This leaves 40 – 50% for the value addition and the profit margin, but this must be balanced with actual selling price related to cutting yields if the quality is poor. To command a good quality finished leather requires more machinery, talent and market access. To transform from semi-processed to finished leather requires intensive work for the value it will be bringing. It costs more to upgrade low grade materials – at it stands now, there is no capacity to invest on the low quality. Leaves us with two options – either (1) find a market for it at a sensible price or (2) find an alternative market in other sectors (pharma and cosmetics/food industry) which will take the raw material simply as collagen. To be able to complete the entire product manufacturing in Ethiopia, will be fuelling the economy from all the additional activities and employment that product manufacturing will be creating. This will require the finished leather supply to improve its quality and increase volume, for which further technical improvements need to take effect.

Details of Recommendation

- Strategically incentivizing multiple product manufacturers to relocate to Ethiopia. Instead of targeting existing manufacturers, perhaps deliver the opportunity message direct to brands. This would require ‘Western’ support to sell the possibility
- Bring in other types of investment (e.g. those looking to source collagen) basing it off of the use of the by-product of the leather sector in the country
- Put in place a mechanism by which good, reliable and consistent finishing in the country is attractive/efficient – communal upgrading facility could be created that specializes only in upgrading techniques and production

Ownership

- MOTI
- LIDI

Benchmark

- A number of countries such as Indonesia, India, etc have employed incentives to ensure that final product manufacturing is completed in their country that is aligned to ensuring the use of domestically sourced RHS
- Companies such as Devro, have collagen refining facilities located around the globe to access various RHS waste feedstocks
Drive real value addition from final product manufacturing not only from finished leather

**Specific Constraint**

- Less gain – Ethiopia is exporting more than 47% of its finished leather at less than USD $1
- Only 15% of Ethiopia’s exports brought a price of $2 and above
- Less value addition by tanneries – hence commanding low price

**Context**

The low export price performance is despite the country’s value addition policy that is aimed at increasing export earnings from exporting value added products. The restrictive tax policy was also introduced to achieve the same result. The government needs to closely follow the export performance of this sector and ensure that the country is getting its fair share from the finished products it is shipping, thus ensuring the export products are in no way being ‘undervalued’. It is also important and timely to understand the reasons behind the continuous low export price performance accounting for a significant share of the export volume. Although it is known that price points are different for different finished leather types, buyers (mostly agents/traders in Ethiopia's case), level of value addition and finish quality/grade selection determine the final negotiated price.

**Details of Recommendation**

- Ensure the minimum cost of production is covered by the claimed price
- Ensure the right price is being fetched from the raw material used
- Suggest price target ranges for different finished leather categories – this should generate an additional 7 to 10 million dollars

**Ownership**

- MOTI
- LIDI

**Benchmark**

- India typically consumes leather produced internally and imports as necessary
Recommendations focusing on inputs supply (RHS, Chemical, Accessories etc.)

1. Introduce floor price mechanism for RHS at production and collection level to incentivise better collection rate
2. Improve RHS management and inspection system
3. Develop an essential/base Ethiopian Restricted Substance List (RSL) in line with LWG base recommendations for chemicals
4. Enable existing TDI footwear factories to import accessories and components and supply in the domestic market. In the long run, promote new investment in accessories
5. Encouraging modern and commercialized farms and abattoirs via new investment
6. Develop pre-tanning process or pickling plant – by abattoirs, traders or tanners
7. Focus on animal health
8. Improve the bonded warehouse system

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**Implementation Timeline**

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**Sector structure and Positioning**

- Input Supplies
- Production Process
- Marketing
- Cross-cutting Functions

---
Introduce floor price mechanism for RHS at production and collection level to incentivise better collection rate

**Specific Constraint**

- Discouraging prices observed in the first level markets leading to lower collection rate overall, in turn causing lower supply to the tanneries.
- Disagreement on grade and origin of RHS supplied.

**Context**

Currently there is a serious supply-demand scenario occurring, driven primarily through availability and perceived quality of the RHS. Such highs and lows of pricing and availability, which originate at the RHS stage, serve no benefit to the tanners, whom are unable to pass on regular fluctuating costs in the final leather cost. As such it creates issues where tanners effectively gamble upon raw material inventory, which can cause extreme pressure on cashflow or potentially having to overprice the final leather as forward cover for high RHS prices, impacting on sales opportunities. If a tanner has no raw material, they have nothing to make leather with.

In addition, it is also known that FDI’s are paying higher prices in order to access better quality or larger skins, and thus their purchasing power is causing an imbalance that is effectively penalising the local tanneries.

**Details of Recommendation**

- Through introduction of a more regulated floor price, the RHS sector is incentivised to increase collection rates, and a standardised price will smooth the sale price to tanneries and ensure greater volume-related opportunity for the country as a whole.
- A floor price mechanism will also incentivise small holder farmers and small traders to seriously consider improved handling of RHS. Small traders will actively become involved in collection of RHS, ultimately increasing the supply of RHS as opposed to wastage.

**Ownership**

- MOTI
- MOA
Improve RHS management and inspection system

Specific Constraint

- Poor management of RHS leading to deteriorating grade and quality.

Context

The loss of quality can be directly related in to a $ financial value. Even with crude estimates, it is anticipated that over $10M is lost in export revenue due to quality related issues, whether it be reject skins or just simply large cutting yield losses. Post-mortem defects can be addressed in the short run which will increase the grade selection, while ante-mortem defects require long term animal husbandry interventions.

Details of Recommendation

- Hides and skins extension and regulatory service needs to reinforced led by Ministry of Agriculture and Livestock Resources. It needs to carry out regular RHS improvement activity such as: capacity building and training program for RHS traders, artisans and butchers, provision of inputs such as field vehicles, RHS preparation equipment etc., and employing RHS technicians and experts working all over the country. This process will support the increased capability of small holder farmers, RHS small traders and large scale traders to improve the management of RHS leading to quality improvement.
- Standard Operating Procedure (SOP) to be introduced at the abattoir level. Abattoirs should be utilising best practices to ensure the RHS is treated as a valuable by-product. As such an instructional SOP can be generated to provide sufficient training and quality control checks during the process, in order to yield improved RHS. A quarterly inspection (led be MoA technicians) to be conducted to ensure if the SOP is being implemented or not. If not implemented, then the licence of the abattoirs to be revoked.

Ownership

- MOALR
- LIDI

Benchmark

- In 2010, the annual slaughter volume in Brazil has reached 60 million head of cattle including establishments of registration system with the Federal Inspection Service (FIS), the State Inspection Service (SIE) and the Municipal Inspection Service (MIS). The inspection system standardize and ensure quality across the whole country.
3 Introduce Restricted Substance Lists (RSL) for leather manufacturers

**Specific Constraint**
- Risk of restricted chemicals being used and rejection by buyers due to non-compliance
- Failure to conform to global standards, leading to loss of market share and poor reputation as a manufacturing base

**Context**
RSL plays a critical role in ensuring export products meet chemical compliance programs from the brands and export markets. Responsible chemical management goes beyond complying with test limits or finished materials. Best practices for chemical management begin with controlling the quality of chemicals sourced and used within a manufacturing facility. By using industry tools that guide procurement of compliant input chemistry, suppliers can confidently select chemical formulations that enable improved worker safety, in addition to wastewater, material and product compliance that will meet the criteria of export markets and brands. Failure to comply could mean loss of business, or worse still product recalls which are extremely expensive scenarios.

**Details of Recommendation**
- LIDI to develop an Ethiopian Restricted Substance List (RSL) in line with LWG base recommendations. The list will be publicly available for tanneries/factories and chemical importers to conform.
- Chemical importers will be required to provide certificate of conformity to ensure that the chemicals are in line with the RSL.
- LIDI to coordinate the RSL testing process in collaboration with a reputable laboratory abroad e.g. SATRA (UK), INTERTEK (Laboratories Worldwide) etc. to ensure that imported chemicals are in line with the RSL.
- If the chemicals are not in conformation to the RSL, the source will be identified and punitive action will be take (such as – licence revoke of the importer etc.)

**Ownership**
- LIDI

**Benchmark**
- RSL’s have been gaining importance over the last 20 years, and it is commonplace for tanners in other countries, or those suppliers to large brands to adhere to their RSL guidelines in order to be able to supply to the brands. Taking it further, certain chemical companies are now offering MRSL chemical inputs, which are pre-screened and thus ensure that they contain no products on the RSL lists, e.g. Stahl.
Enable existing FDI footwear factories to supply the domestic market with accessories and components and provide product development services. In the long run, promote new investment in accessories.

**Specific Constraint**

- Delayed delivery time of products due to long lead time needed to secure accessories and components
- Very small scale accessories/components industry in Ethiopia. Currently, there is no business case for new investment due to manufacturing industry not being large enough

**Context**

The leather product manufacturers, especially the domestic ones, are constrained by timely supply of accessories and components. Also, they suffer from forex shortage which compounds the complexity. As a result, the factories are not able to meet export orders in time. Alternately, the FDIs have automatically forex available and can import in a timely fashion. Therefore, there is a potential opportunity for synergy between the FDIs and domestic factories where the FDIs supply accessories to the domestic factories which benefit the

**Details of Recommendation**

- Enable existing FDI footwear factories to supply the domestic market with accessories and components. The FDIs have enough forex and working capital to import and manufacture (inside their facility) accessories and components surplus to their own consumption. If they have clear purchase orders from the domestic factories, they can import on behalf of them and sell in local currency. This will guarantee supply of quality accessories in a timely manner, also ensuring high quality of inputs, which otherwise would be imported from substandard sources and with longer lead times.
- Develop a clear financial transaction mechanism for FDIs to offer this facility.
- Once there is enough volume business for accessories and components i.e. new investment in leather product factories, Ethiopian investment commission should promote and incentivise new FDIs or domestic investors to manufacture accessories.

**Ownership**

- MOTI – immediate engagement with FDIs to establish a scheme for the input supply to take place
- EIC – crafting incentives packages for FDIs to engage in this additional activity

**Benchmark**

- This is a common practice in the Indian and Bangladeshi garments industry where FDIs sell their additional accessories to the domestic factories which enables a win-win scenario and collaboration amongst the domestic industry and FDIs.
Optimise utilisation of existing abattoirs and encouraging modern/commercialized farms and abattoirs via new investment following the directive already approved by the Ethiopian investment board

**Specific Constraint**

- Absence of commercial farms consistently supplying for the meat and also leather industry
- Collection rates vary, revolving around three peak seasons; traders/collectors hoard supply to benefit from high prices in low seasons.
- Poor slaughtering practices leading to poor quality RHS supply.

**Context**

Leather is a by-product of the meat industry, and predominantly relies on good quality raw material to attain export markets. Currently the farming of the bovine, sheep and goat in the country is dispersed in turn affecting quality, traceability and consistency in supply.

**Details of Recommendation**

- Promote new investment in commercial farming and abattoirs. Land should be identified in areas where predominantly there are more animals per Sq KM.
- Opportunities of significantly improving quality are available, not only in the RHS, but also the meat and milk as well, through modern techniques of husbandry, vaccination, favourable grazing environment (less chance of scratch type defects), better feed, etc apply. Therefore, the investment pitch should consider a comprehensive approach of meat, dairy and leather industry. This approach poses an opportunity to target investors from the middle-east who are interested in investing in the meat industry.
- This recommendation also poses an opportunity to establish full traceability system, which in turn would attract more export market and brands.
- Introduce better feed supply than can be found naturally, as the structure of the hide/skin is not only genetic but closely associated with dietary.

**Ownership**

- MOALR and EIC

**Benchmark**

- Countries such as USA, UK, Brazil have commercial farms that raise herds or flocks of animals primarily for the meat and dairy industries. They also understand the value of the RHS and work towards reducing ante-mortem defects. As such husbandry practices are in place, along with fully regulated abattoirs with strict SOP's and legislations.
- High levels of training and quality based schemes to avoid peri-mortem defects. In addition the RHS is immediately placed in conducive storage conditions to avoid post-mortem defects.
Develop pre-tanning process or pickling plant – by abattoirs, traders or tanners

Specific Constraint

• Storing of RHS is a challenge as the supply is highly seasonal
• Disagreement on grade between the RHS traders and tanner due to transacting at raw stage
• Quality of RHS deteriorate due to challenging transportation system and poor storing

Context

RHS material should be either fully cured or processed as quickly as possible after it is removed from the animal. Typical curing systems involve large amounts of salt (NaCl) which is an issue to the environment and can be difficult to treat at the effluent stage. An option is to develop a capability for almost immediate processing to occur on the RHS, taking the material through to a processing stage that is ‘safe’ for the RHS to be held for extended periods of time without fear of putrefaction. This provides opportunity to be able to genuinely grade the RHS (typically sold in the raw state it is virtually impossible to detect grain defects, which is a primary driver of the ultimate value of the RHS). Another aspect to consider is that by creating a pickling plant or metal free pre-tanned leather, it can create opportunity to generate chrome free or metal free leathers, which are gaining traction in the marketplace, although it is vitally important to understand that within the LWG audit scoring system, if Chrome free leathers are generated from pickle they will obtain a score the same as if it were chrome tanned, whereas a chrome free leather made without going to the pickle stage will generate a positive scoring. Thus to satisfy the export market (either leather or final products) Ethiopia should not gear up to be effectively only chrome tanned leather, and this system allows this possibility.

Details of Recommendation

• Develop pickling plant/pre-tanning plant on-site at a the CETP where there are number of abattoirs close by. Alternatively, this could be a joint venture or collaborative approach between local traders and specific tanneries. Process and new techniques need to be developed within the traders and tanneries to implement the idea. The capacity building initiative could be managed by LIDI and international consultants.
• The pre-tanning process enables traders to store the RHS for longer period, transport safely without the fear of putrefaction and finally allows traders and tanneries to properly grade the RHS. This would enable greater transparency, consistency and trust amongst the trading stakeholders; leading up-to introduction of “contract trading” modality which will induce further quality improvement of RHS in the value chain.

Ownership

• LIDI with Development partners

Benchmark

• USA – whilst not exactly the same, they do supply predominantly a wet-blue tanned material for further processing, typically immediately processed from the abattoir. This allows semi-processed material to be supplied that can be effectively graded and sorted for the resulting final article, and thus the tanner purchases only what is required. The proposal above is a slight spin on this industry standard.
• New Zealand – has a very large wool sheepskin sector and the skins are typically traded in the pickle stage again as this is a stage where the material can be safely stored and much more accurate quality grading can be achieved along with size and to a degree of thickness.
Focusing on animal health and handling

**Specific Constraint**

- Poor animal health practices leading to deteriorating grade and quality of RHS.
- Poor animal transportation

**Context**

Antemortem quality related issues are predominantly related to brand marks, scars, scratches, fighting, or more significantly from parasitic or insect type damage. The Ekek defect (Amharic for ‘itch’) is particularly bad in Ethiopia on skin and hide for causing grain defects similar to ‘cockle’ witnessed in UK and New Zealand, which can seriously downgrade skin quality. Parasitic (e.g. biting lice, keds, etc) damage far outweighs the other antemortem issues with suggestions of >65% quality related issues attributed to this, in particular the Ekek defect, and as such there is a significant loss to the tanner, as the parasitic issue is only visualised once at the pickle or wet tanned state. This ultimately means a loss on three aspects being the initial purchase of the defective skin, secondly the cost of processing such poor quality material and finally the loss of potential profit due to the skin not being fit for the export type market.

**Details of Recommendation**

- Extend national animal health programs with support of continuous public fund and permanent staffing and structure. This would enable significant and much needed resource and support to address the animal health issue in a systemic way.
- Some technical steps can be taken to improve the quality of RHS such as alternatives to branding (e.g. ear tags), selected grazing environments to reduce scratches and scars and research into the best methods of dealing with the parasites such as regular treatment with topical acaricide treatments (particularly the Diazinon brand), regular shearing (which would also generate some form of by-product) which was proven extremely effective or even the more natural treatment of phytolacca. Dipping with acaricides, whilst effective, are harder to control, and care must be taken not to allow the animal to ingest the product to avoid poisoning, although with good practices in place this would be minimised.
- National campaign on treatment of animals in all regions at the same time since the disease is easily transmittable

**Ownership**

- MOALR

**Benchmark**

- Developed countries treat animals for all health reasons and realize the opportunity of RHS as a valuable byproduct
Improve access to inputs (chemical and accessories) though strengthening of the current bonded warehouse system and inducing new investment

**Specific Constraint**

- Difficulty of importing chemicals, accessories and components on time. As a result, tanneries and factories are not able to meet the buyers expected time-line and in some instances production comes to a halt.

**Context**

Currently the bonded warehouse scenario is not functioning optimally and not reaching the objective it was established for. Weak planning coordination with tanneries, inspection inefficiency and weak awareness by ERCA, higher transportation and warehouse costs, final price being more expensive than direct import [due to service fees and operational expenses] are some of the reasons contributing to the inefficiency. The major implications are delayed receipt of chemicals and if a chemical ingredient has to be substituted due to lack of availability then technically it may fail original specifications given. Cascading from this stems the issue of product inconsistency and quality assurance. Production can essentially come to a halt, not only affecting the output, but also causing untimely delays in completion or orders for export with pre-agreed shipping dates, ultimately resulting in penalties of monetary value, or forcing to air freight goods which is extremely expensive.

**Details of Recommendation**

- Capacity building of EIIDE to improve the bonded warehouse scheme. Consider collaboration with private firms for management and operational support
- MOTI/EIIDE consider working with large chemical companies to bring in chemicals on consignment basis. However, EIIDE must have access to forex and be capitalised to ensure consignment delivery.
- EIC to promote investment in chemicals and other inputs manufacturing [in the long run]
- EIIDE to develop a mechanism to work with input aggregators in major input supplying countries (China, Italy, India etc…) to facilitate bulk procurement

**Ownership**

- MOTI
- EIC
- EIIDE

**Benchmark**

- In USA, UK, China, it is often found that bonded warehouses are run by private firms and have a fully digitalised interface to expedite the movement of goods and effectively remove instances of bureaucracy. Costs are typically about 50% for privatised bonded facilities compared to government administered facilities, with extremely short lead times for the release of goods.
Recommendations focusing on Production Process

1. LIDI driving research and product development with incentive mechanism established within LIDI to encourage innovation
2. Incentivise R&D and technical laboratory set up at the tannery and leather product factory premise
3. Ensure the enforcement of standards such as LWG, ZDHC and RSL certification as they are the key compliance requirements globally
4. Put in place a process control guideline/training system based on LWG standards so that tanners can conform to specifications
5. Encourage the principle of PPM (Planned Preventative Maintenance) through private service providers and consultants
6. Factory level international expert support to ensure that the tanneries and factories are run as per international business standards

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Policy recommendations

Technical recommendations
LIDI driving research and product development with incentive mechanism established within LIDI to encourage proactive support

**Specific Constraint**

- Minimal usage of upgradation technology by tanneries
- Limited knowledge/capacity of new technology
- Lack of speciality chemicals usage/knowledge
- Lack of modern finishing equipment for upgrading purposes and product diversification

**Details of Recommendation**

- Reform the management structure to function as “profit” centre, similar to CLRI (Central leather research institute) based in India.
- Introduce profit sharing model from the earnings of LIDI with the employees/researchers who are engaged in developing new products/services.
- Partner with international research institutions and co-invest with private sector/donor to develop new products.
- Develop partnership with international chemical companies’ research centres and jointly develop products using latest chemicals and Ethiopian raw materials. The idea is to develop/improve the small scale development centre, which includes wet drums, 600 mm width roller coater (equipped with the necessary varying types of rollers) and small spray line. That way numerous trials can be generated on a daily basis not only for genuine academic research and development but also creation of export market related leathers.
- Develop practical training and consultancy service products for the leather industry.

**Context**

The function of LIDI should essentially be a resource as a centre of excellence. It should be aware of all the latest technologies that are available and build prototype examples of such technologies on all raw material types. The opportunity here is to act as a genuine resource for the leather industry, where tanners can go not only to see new developments, but be able to run trials.

**Ownership**

- MOTI
- LIDI

**Benchmark**

- CLRI (Central leather research institute) in India, is set up by government but its management model is self-sustaining form products and services it offers to the industry. This model incentivizes staff and management to provide pro-active and reliable services to the industry.
Incentivise R&D and technical laboratory set-up at the tannery and leather product factory premises

Specific Constraint

- Lack of new product development specific to export market specifications
- Absence of well organized testing laboratories for quality assurance
- Absence of continuous process efficiency improvements

Context

The opportunity here is for tanneries and factories to have a private section for leather developments, away from the public setup of LIDI. In addition, it will serve as a centre where chemical companies can visit and use the facilities to assist in showing new chemical based technologies. Competitive advantage is a key factor in securing and maintaining customers with interests of new product development in confidentiality. The development centre can also be utilised for scaling up trials (larger quantity salesmen samples) before going in to bulk production. Furthermore, the laboratory can provide results and feedback on bulk production as well as for R&D. This is critical in that export leathers must be supplied conforming top pre-agreed technical standards such colour fastness, strength, water resistance, etc. and suppliers should provide batch test results to the customer for QA reassurance.

Details of Recommendation

- R&D and Laboratory Equipment capex purchases should qualify a tax rebate incentive. This will encourage tanneries and factories to invest in setting up lab and hire technical experts.

Ownership

- MOTI
- EIC

Benchmark

- In the UK, R&D relief allows companies that carry out qualifying R&D related to their trade to claim an extra Corporation Tax deduction (230%) for certain qualifying expenditures such as R&D equipment, services, etc. (Guidance: http://www.hmrc.gov.uk/gds/cird/attachments/rdsimpleguide.pdf)
Ensure the enforcement of standards such as LWG, ZDHC and RSL certification which are key compliance requirements globally

### Specific Constraint

- Limited improvement and investment in technology and innovations as per international buyer requirements and standards
- Poor production management

### Context

LWG is now an internationally recognised standard, and is an independent body made up of chemical suppliers, tanners and brands. The standard was introduced to generate two outcomes; firstly to ensure tanneries were operating responsibly with regards to the environment and secondly (and often missed by tanneries in developing countries) to create a framework where efficiency of processing can occur and consequently save costs. By becoming certified, it will give rise to export opportunities and establish the tannery as a world player. RSLs are varied, but do share a common theme. Brands typically impose stringent RSL legislations and as such ‘their’ products must conform to ensure that restricted substances are either not used or under certain limits in the final article. Without RSL testing there are barriers to entry to supply many of the leading global brands. ZDHC is a newer initiative that is driving MRSLs (Material Restricted Substance Lists), but it creates opportunity in that understanding of this initiative means that working with chemical companies who abide by ZDHC will ensure that chemicals sourced from them will almost certainly conform to brand RSL’s.

### Details of Recommendation

- It is recommended that existing and new FDI tanneries must attain LWG Bronze or higher. The domestic tanneries would be provided a 5 year window and FDIs would be provided 2 year window. The ambition is by 2025, all tanneries based in Ethiopia would be LWG certified. This would attract quality leather product factories to base their manufacturing in Ethiopia. As an incentive, the LWG certified tanneries will be provided with priority for forex allocation.
- LIDI must set-up a department/team to support tanneries in their effort to be LWG certified.
- LIDI should coordinate with donor agencies to support the tanneries for preparatory activities for LWG certification.
- Develop an essential/base Ethiopian Restricted Substance List (RSL) in line with LWG based recommendations.
- Tanners should aim to work with chemical companies embracing the ZDHC initiative.

### Ownership

- LIDI/MOTI
- EIC

### Benchmark

- Tanneries in other countries realise that to supply into the export market, they need to embrace these initiatives. The consumers in the world are far more environmentally savvy these days, and brands cannot afford to deal with suppliers that may not operate in a way that is environmentally unfriendly nor respectful of toxic substances in final articles. LWG certification has now become a globally recognized standard.
Put in place a process control guideline/training system based on LWG standards so that tanners conform to specifications

### Specific Constraint

- Absence of modern industrial production management system
- Lack of quality management system

### Context

The opportunity here is to train staff to be fully aware of essential processing control technologies and link these in with LWG protocols where possible. As noted earlier, the LWG is not only to help the brands, but can significantly improve the efficiency of the tannery in terms of water, energy usage, etc. The aspect here is one of changing mentality, where currently basic inputs of water, energy, etc are either cheap or free, and thus effectively mistreated and squandered. There needs to be a culture instilled, irrespective of LWG, in that: ‘if you can measure it, then you can control it’ so that constant processing improvement review can be generated. The implication is reduced costs in the transformation of the leather and thus a potential competitive advantage in a better selling price and more consistent product, or if so desired a greater profit margin. Furthermore, control of processing parameters should give far more consistent leather, as required for the export market.

### Details of Recommendation

- LIDI to develop training program for tannery technical experts on process control and develop a guideline that would be publicly available. LIDI can collaborate with CLRI and Institute of creative leather technologies (UK) to develop the training program and guideline.
- LIDI to conduct quarterly audit and provide consultancy service to improve the process control system.

### Ownership

- LIDI

### Benchmark

- Technical staff from tanneries in Europe, China, Brazil are fully trained in this, and have such systems installed. CLRI and ICLT provide training and guideline on process control which is established in majority of quality tanneries globally.
Encourage the principle of PPM (Planned Preventative Maintenance) through private service providers and consultants

Specific Constraint

- Tanneries/factories operate with multiple machines produced by multiple manufacturers, making planned maintenance services more complex
- Lack of machinery maintenance services within country
- Without PPM, tanneries/factories face significant impact on productivity

Context

It is critical for tanneries and factories to have equipment functioning optimally at all times. If a machine breaks down it can cause a cascade of effects regarding production output and delivery times. As such PPM is a critical aspect, to ensure that machines are serviced at regular intervals to avoid production capacity issues. In addition by having this service close by on the Modjo cluster, and being able to service numerous tanneries, the business proposition is attractive for one company to provide this service (albeit that they may call in service technicians from the machine manufacturers if so required). Furthermore it may remove a further barrier in that they will carry an inventory of spares, thus avoiding forex issues relating to machinery that currently manifest itself. Finally they will be trained in setting up the machines to operate at optimal efficiency, and provide the necessary skill set in producing consistent and high grade machine operations within the leather transformation process.

Details of Recommendation

- LIDI to have a list of potential institutions and encourage by providing continuous information to the industry actors.

Ownership

- LIDI

Benchmark

- Developed tanneries and factories apply PPM as an essential part of their business
International expert support to ensure that the tanneries and factories are run as per international business standards

**Specific Constraint**

- Not enough capable staff running the factory (procurement, planning and time management, bank processes, logistics arrangement, dealing with ERCA, production forecasting, communicating with buyers on production/shipment progress etc.)
- Lack of well trained industrial management professionals, costing manager, purchase manager, industrial engineer and top management

**Context**

Strategic/managerial level expert support can ‘fast-track’ tannery/factory evolution to export level standards. The expert should be able to provide a plan and time-line of how to improve tanneries/factories and begin to generate export market sales. In addition they will bring International level thinking and strategy to the business, and be able to train and educate staff not only for the immediate business climate, but also to understand and adapt to future scenarios that will occur. However, this will come at a significant cost, and there must be enough commitment (both financial and management based) to support the upgrading of the business in general. This has been tried by bringing in technical experts which could have had much more impact if the experts were to have supported the entire business/production process as opposed to just technical.

**Details of Recommendation**

- LIDI to develop a list/pool of international experts that can be hired by tanneries and factories. LIDI’s training service (supported by international experts) will develop a pool of local consultant in future.
- Seek support from donor agencies to fund long term deployment of international experts (1/2 years) as opposed to short term assistance.
- Personal income tax exemption for five years for international experts working in the tannery and leather product factories (inline with the incentive offered to the expatriate employees working in industrial parks).

**Ownership**

- Private sector
- LIDI with development partners’

**Benchmark**

- China, Vietnam and many other countries hired international experts become such significant actors in the leather value chain in the world today. It is not feasible to think that local tanneries, whom have had limited experience of dealing internationally can simply adapt on their own. Domestic evolution takes a long time, but with expert intervention it can fast track the process.
Recommendations focusing on Marketing

1. Build business network through experienced marketers and create a digital presence for easy access
1 Build business network through experienced marketers and create a digital presence for easy access

Specific Constraint

- Limited experience and knowledge in international marketing of finished goods, especially on how to enter new market spaces and maintain close follow up with business leads.
- Lack of budget planning and/or limited willingness to allocate marketing funds understanding of strategic importance of marketing/promotion.
- Limited initiatives to strengthen B2B relationship of local producers with international buyers, brands and other actors.
- Limited digital presence.

Context

The Sales and Marketing process has become more complex in modern times, and so it must be completed effectively. Marketing in the leather industry, like many other manufacturing industries is now more about how to satisfy the customer and their needs. The opportunity of sales agents effectively reduces internal burden of marketing, as they already understand the needs of the customer and can relay this information accurately and quickly to generate genuine sales possibilities. The overall implication is that sales and marketing has a cost, possibly higher than what the industry is used to [when it used to sell semi-processed leather]. Now, the game has changed and consequentially a degree of investment has to be made.

Details of Recommendation

- ELIA would identify commission agents in Ethiopia and major exporting destinations. Tanneries and product factories should engage with these commission agents and invest in marketing activities.
- Digital presence designed with the customer (and consumer) in mind including social media with regular content update in order to prove that the business appreciates and understand the modern day world.

Ownership

- Private sector – ELIA
- Development partners

Benchmark

- Sales agents are still extremely important in the global competitive environment, not only for their networking aspect and rapid opportunity potential, but also to avoid conflicts of interest e.g. some brands are very competitive and so if tanneries/factories supplies Brand A, it effectively cannot supply to Brand B. Here the sales agent is an effective customer and manage opportunities well.
- Leading tanneries/factories have very slick websites, full of information that customers desire, very professional, and indicate that the company is one of excellence and extremely well managed. Examples are: www.sadesa.com; www.primeasialeather.com; www.pittards.com; www.wolverinleathers.com
Recommendations focusing on Export and Investment

Export and Investment

1. Enable domestic tanneries to transact in foreign currency for selling finished leather to the product factories who are exporting.

2. Targeting international brands and manufacturers, for increased export and to induce new investment in Ethiopia.

3. Investment promotion via industrial park.

Implementation Timeline

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Policy recommendations

Technical recommendations
Enable domestic tanneries with indirect exports to access USD

**Specific Constraint**

- Limited forex availability for tanneries to import inputs such as chemicals

**Context**

Ethiopia is facing a chronic forex crisis which is affecting the leather industry as it depends on import of chemicals and other foreign inputs, leading to delays within the production process. For tanneries to continue to supply the leather sector, they need access to forex and in the instances that they transact with FDI product manufacturers, consider allowing a proportion of that transaction to be in forex.

**Details of Recommendation**

- Consider to allow USD based transactions for indirect exporters
- Government to allocate a certain percentage of forex for the indirect export value through the national bank to ensure tanneries have access to forex

**Ownership**

- MOTI
- EIC

**Benchmark**

- This scenario was employed in a similar fashion by Taiwan and China many years ago, not only for leather but for many industries including garments sector.
- USD based transaction in IPs.
Targeting international brands and manufacturers for increased export and induce new investment in Ethiopia

Specific Constraint

- Limited initiatives and interventions in promoting and branding Ethiopia as sourcing and investment hub. Most of the investment promotion is generic and doesn’t apply specifically for leather industry as has been done for garments.

Context

The leather industry is constrained by lack of new foreign investment in the last six years, and it is absolutely crucial to bring quality foreign investment to achieve increased export performance and employment.

Details of Recommendation

- For the footwear industry, Ethiopia needs to target international brands. The process will kick-start sourcing from some existing factories [crucial to ensure existing manufacturers are supplying the export market successfully]. This will send a message in the manufacturing industry leading to more manufacturers interested in investment in Ethiopia. The AGOA opportunity is crucial to the manufacturers which can be optimised. Brands are the leading force in the footwear industry, so it’s crucial that Ethiopian leather sector is able to work with “anchor” brands which will work as domino effect for increased export and new investment.
- Gloves are classed as accessories, and very few brands operate distinct gloving departments. Instead, brands tend to rely upon the glove manufacturers to bring them possibilities, not only in materials, but new glove designs and pricing options. Therefore, for gloves, instead to targeting brands, the tactic would be to target top glove manufacturers to invest in Ethiopia.
- LIDI can play a crucial role with EIC to promote new investment based on product development capacity of Ethiopia.

Ownership

- EIC
- LIDI

Benchmark

- China, India and Viet Nam followed such tactic for the last 20 years to generate investment and increased export in their respective countries. Anchor brands and international experts worked closely with relevant ministry and investment agencies to promote products and incentives to manufacturers.
### Specific Constraint

- Limited new investment in Ethiopia in leather goods manufacturing

### Context

From the currently operational IPs Adama, Bole Lemi I & II, Kombolcha, Mekele, Aysha (Diredawa) are capable of hosting leather goods manufacturers. In addition, George Shoe and Huajian are constructing IPs that are dedicated for leather goods manufacturing.

### Details of Recommendation

- The Ethiopian Investment Commission should design and implement a focused investment promotion in selected countries to attract leather manufacturing FDIs
- The focus shall be on key manufacturers who are leading across selected categories of products
- The investment promotion shall also target key value chain actors for the leather goods manufacturing such as chemical manufacturers and suppliers, leather product accessory manufacturers and packaging material producers ensuring added cost competitiveness and meeting lead time and quality requirements of the international market

### Ownership

- EIC

### Benchmark

- Italy, Turkey and India have used Industry Parks and special economic zones to promote FDI and local investment aggressively. The IPs and zones are integrated along the value chain with key suppliers of components, chemicals, machinery and other inputs having service centres in place.
Recommendations focusing on Environment

1. Increased checks of tanneries for installing primary and secondary treatment plant. This is to be accelerated via GoE investment in construction

2. Put in place a standard guide for responsible water usage

3. Finalize the Modjo Common Effluent Treatment Plan (CETP) plant construction

Policy recommendations

Technical recommendations
Increased and systematic checks of tanneries for installing primary and secondary treatment plant. This is to be accelerated via GoE investment in construction.

Specific Constraint
- Non-compliance with EPA and buyers requirement on waste water treatment
- Heavy pollution and poor sector image for Ethiopia internationally

Context
There is no reason why effluent discharges originating from Ethiopian tanneries should be failing EPA standards. The standards have been in place a long time, LIDI has been completing effluent testing, and yet still the tanneries did not seem to fully comply. This resulted in a Government crackdown recently, forcing Primary and secondary ETP’s to be installed. But the progress is slow. In addition the tanneries could have gone some way to basic process efficiency steps in order to drop the effluent discharge loadings. The implication is that the tanneries are polluting the environment, and not conforming to EPA standards based upon the latest figures supplied. Ethiopia cannot afford an environmental disaster, either in tangible terms of pollution in the country nor bad media possibilities. Furthermore, it is not wise that FDI’s are allowed to enter the Ethiopian leather industry and not have ETP’s installed from the onset of the tannery building phase. FDI’s should automatically realise that they need to operate with ETP’s and how damaging poor effluent can be to the environment, and as such are simply abusing the situation and opportunity in the country.

Details of Recommendation
- All tanneries not involved with a CETP, need to have fully operational effluent treatment facilities (both primary and secondary) that comply with Ethiopian EPA values as a minimum, and produce a regular official reporting mechanism to ensure compliance. Failure to comply will mean licences are revoked until proof of compliance.
- Any new investors (domestic or FDI) will need to prove compliance within three months of commissioning the tannery.
- Random checks by EPA to occur. Within 12 months time-line, 70% of the tanneries should come under random checks. Such intensive checks should continue next few years to ensure greater compliance by the tanneries.
- GoE would set-up a fund to invest via grants (by donors) or zero %interest loans for funding on a cost-share basis of the initial capital required to construct the treatment plants

Ownership
- MOTI
- EPA

Benchmark
- China, Italy, India, Vietnam all have very strict rule on implementation of EPA rulings.
- India has a policy to invest in 65% of the required finance for construction to be environmentally compliant. Federal government invests 30% and regional government invests 35%.
## Put in place a standard guide for responsible water usage

### Specific Constraint
- Miss use of water. Water is treated as natural resource which is abundance in supply.
- Absence of flow meters to measure water input and discharge.

### Context
Water is treated as a free resource as it mainly comes from boreholes. There is a poor attitude to the use of water and understanding its value, simply through not even bothering to measure how much is used. Such a stance is not tolerated by many of the brands, and thus again it will become an environmental based barrier to entry/trade with many of the export markets.

### Details of Recommendation
- The use of water must be considered, through introduction of tamper-proof water flow meters, so that the amount of water coming in to the tannery can be recorded and referenced against the volume of leather produced. The target set will be according to the LWG audit protocol.
- It will be mandatory for all the tanneries to install the water flow meters and tracking of water usage. The data will be regularly recorded and shared with LIDI to ensure the target is met.

### Ownership
- LIDI – playing support role
- EPA – playing regulatory role

### Benchmark
- Global tanneries recognize water consumption recording as a central activity.
Finalize the Modjo Common Effluent Treatment Plan (CETP) plant construction.

Specific Constraint

- Non-compliance with EPA and buyers on waste water treatment requirement
- Poor functioning effluent plant at firm level and huge investment cost to install a fully operational effluent treatment plant
- Heavy pollution and poor sector image for Ethiopia internationally

Context

CETP is absolutely crucial to the development of the industry and minimise the cost of production for tanneries, while comply to global standard. A CETP is a sensible way to address effluent treatment for large scale manufacture of leather within a cluster, so long as it is built correctly and to an extremely high standard; in truth it should be used as a valuable marketing tool for the Ethiopian leather industry. It will bring about reassurance that ALL effluent is treated correctly and discharged to specified standards, which would be a massive benefit to the country, considering that the tanneries with currently operating ETPs do not seem to even be able to comply with EPA standards. The CETP’s would likely charge using a cost matrix based upon the amount of water discharged and the various effluent loading categories (e.g. chromium, NaCl, BOD, COD, etc), and this way the tanneries cannot cheat (i.e. they could reduce Cr levels in their feed to the CETP by diluting with twice as much water). Consequently tamper-proof water meters would be installed to record this. This would in turn drive the tanneries to review their processing efficiencies, and realise that they must use less water throughout the transformation process. This in turn would drive a better stance on the utilisation of water being such a valuable resource. Other benefits are likely to be that CETP’s effluent treatment would be significantly cheaper than if the tannery were completing it by themselves, and as such drive greater price competitive advantage to their sales.

Details of Recommendation

- CETP of very high standards must be constructed in the Modjo proposed cluster. The contractor for this must not simply be awarded on price, but through proof of successful implementation in other countries and validated by a number of experts.
- LWG certified auditor should be part of the advisory board, to ensure the right contractor is selected of global standard and is supervised during the construction process.
- The CETP, being a stand-alone enterprise would need to also look at continuous improvement and various technologies that could upgrade the system over time as the handling of wastewater and treatment systems is constantly evolving.

Ownership

- IPDC
- MOTI
- China, Italy, India have clusters of tanneries with CETP.
- Bangladesh used a contractor selected based on cost and as such the facility is not up-to global standards, and has generated even further bad press for their sector.
Recommendations focusing on Incentives, Coordination, Logistics, and Customs

1. Performance-based incentives need to be introduced and structured around the need of the sector

2. Create a joint taskforce between key supporting institutions to serve as a central coordinating body to drive necessary change

3. Set logistic competitiveness target and establish custom window dedicated to leather

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Policy recommendations
Introduce performance based new incentives for value addition and improve management of existing incentive mechanisms

**Specific Constraint**

- Absence of export performance based incentives
- Manufacturers unable to gain full benefits from voucher system incentives
- Material list (consumption per product and material naming) in the input-output coefficient is not regularly updated (does not reflect regular changes in finished products landscape)

**Context**

As part of the incentive mechanism the GoE has put out includes the voucher system by which manufacturers get duty drawback for the inputs they have imported and used for export. However, the system including the input-output coefficient is not easy to work with nor is it regularly updated to reflect the latest input requirement of the global market. This is causing manufacturers not to take full advantage of voucher system incentives and also to pay unexpected tax penalties. Additional overhead costs are incurred in dealing with different government bodies. Responsible government bodies also suffer from constant change of dedicated/assigned department/experts leading to loss in knowledge of processes ultimately leading to delays in processing and making decisions.

**Details of Recommendation**

- Introduce bold/well studied incentives to promote export and indirect export performance
- Automate input-output system for ease of use by all industry actors
- Continuous capacity building and alignment/coordination between all the relevant members (LIDI, MOI, ERCA, ELIA)-more weight to ERCA which is customer facing body with regulatory capacity

**Ownership**

- LIDI/MOI
- EIC

**Benchmark**

- India promoted export by providing up to 19% direct export cash rebate in the 1980/90s (India’s leather sector 25-30 years ago is where Ethiopia’s current sector performance)
- India employs an efficient and automated input-output coefficient management system
Create a joint taskforce between key supporting institutions to serve as a central coordinating body to drive necessary change

Specific Constraint

- Lack of coordination amongst different implementing agencies leading to weak performance tracking interventions to support the industry.

Context

East Asian economies who are leader in the manufacturing industry, all had a central coordinating agency or ministry that served as a combination of think-tank, policy maker and coordination mechanism for the line ministries involved. Taking learnings from global experiences, it may be beneficial to establish an empowered joint task-force to drive necessary change across organizations.

Details of Recommendation

- Establish a joint taskforce (MoI, EIC, LIDI, ERCA, NBE and IPDC), which should serve as a central coordinating body; empowered to drive the necessary changes across the board. Each associated agency would have a responsible dedicated individual to participate in the coordination meetings (arranged to meet quarterly) and manage needs emerging from the leather sector.
- The taskforce should have a high quality monitoring and evaluation framework and resources to ensure the performance of the decisions are tracked and implemented.

Ownership

- Committee composed of MoTI, EIC, LIDI, ERCA, NBE and IPDC

Benchmark

- Japan: The Ministry of International Trade and Industry (MITI) played a key role in developing and implementing industrial policy especially during the period of reconstruction and growth from 1950 to the 1970s. MITI regularly monitored the needs of the industry and coordinated closely with the companies and sub-sectors that it was supporting. Deliberation councils, committees and study groups, sometimes with the big industrial associations, were all used to ensure that policy reflected the ever changing reality of industry, and industrial strategies were revised every one or two years to ensure their pertinence.
- MITI, in addition to strategy and coordination, worked on issues that were beyond the scope of companies (individually or collectively) such as R&D, infrastructure, trade negotiations and overall business environment.
- China: After Deng Xiaoping launched the opening-up strategy in the late 1970s, a State Council Office was established for Special Economic Zones (SEZ) to conceptualize and implement the SEZs.
- In 2003, the State Council Office for Restructuring the Economic System and the State Economic and Trade Commission were merged to form the National Development and Reform Commission (NDRC), a super-Ministry with 26 functional departments; develops five year plans, investment strategies, industrial policies and economic restructuring programs.
- Singapore: The Singapore Economic Development Board (EDB) was also established in 1961 to attract investment and create jobs. It became the lead government agency for planning and executing strategies to ensure Singapore’s position in the global economy. The EDB envisions, plans and delivers medium term strategies that position Singapore as a venue for investment, originally in labour intensive manufacturing and later in capital intensive and high-tech industries.
Set logistic competitiveness target

**Specific Constraint**

- Weak logistic and custom services leading to delay in importing inputs and export of products.

**Context**

Import lead times are long and expensive compared to benchmark countries; lead times are affected by both customs clearance and logistics transportation. Customs clearance is slow, and lacks efficiency and standards; 77% of the time required to trade across borders is needed for document preparation and customs clearance and inspections. Documentation and clearance can also add over US $1,000 to the cost of the trade procedure, for example 10% of all goods shipped in one instance were delayed directly as a result from inefficient customs handling. A national logistics strategy has been developed and is expected to bring positive changes when fully implemented.

**Details of Recommendation**

- Set logistics competitiveness targets around cost and lead time, and develop a roadmap to achieve targets for the leather sector

**Ownership**

- Ethiopian Shipping & Logistics Services Enterprise (ESLSE)

**Benchmark**

- China; the national logistics strategy is the responsibility of the Ministry of Transport, restructured in 2008. In addition to planning policies and standards, the Ministry also supervises the implementation of plans. To support the implementation process, a national inter-ministry conference on logistics brings 15 relevant agencies together once or twice per year.
- Indonesia; national Logistics Blueprint sets out the roadmap for the development of the industry by government, local and provincial authorities and the private sector over the period 2011-2015. The national logistics strategy was formulated through the cooperation of a range of experts and practitioners, including relevant ministries and government agencies, private sector (through associations), international institutions and academics.
- Malaysia; national logistics plan is incorporated into the Third Industrial Plan for 2006-2020, coordinated by the Ministry of International Trade and Industry, which includes logistics as a priority industry. Preceded by an in-depth analysis of the current state of the logistics industry, the plan then sets out clear targets based on the expected increase in total merchandise trade.
- Korea; Republic of Korea has been developing comprehensive logistics plans and regulations since the 1990s. Prior to this, logistics plans focused on one transport mode at a time. Since the 2000s, logistics policies have focused on developing logistics as an industry, rather than a supporting function of manufacturing, and developing the Republic of Korea as a logistics hub. As a concrete sign of this, the Goods Distribution Promotion Act enacted in 1991 was replaced by a comprehensive Framework Act on Logistics Policies in 2007. A 10-year National Logistics Master Plan is developed based on the guidelines set by the Act.
Recommendations focusing on workforce development

Workforce development

1. Establish a human resource development fund to support worker training in both soft and hard skills.
2. Worker health and safety procedures and guidelines development and enforcement.
3. Create TVET industry linkages and update curriculum to meet the specific needs of the leather sector.
4. Set up worker service support centres to improve retention and address worker unrest related issues.

Implementation Timeline

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Sector structure and Positioning

- Input Supplies
- Production Process
- Marketing
- Cross-cutting Functions
Establish a human resource development fund to support with worker training in both soft and hard skills

**Specific Constraint**

- Ethiopia faces a structural challenge to industrialization due to difficulty of sourcing skilled workers

**Context**

Low rates of labour efficiency – varies from factory to the next, one international factory indicates reaching efficiency levels similar to Bangladesh (47-48%) while others experience rates as low as 25%. Low efficiency is due to low technical (machine mechanic and electrical/electronic) skill level and unfamiliarity with factory work. It limits progression to higher quality and higher fashion products and consequently the range manufacturers can provide buyers. Another major issue is absenteeism from work resulting from poor attitudes towards work, and lack of industrial orientation.

**Details of Recommendation**

- Create a human resource development fund to support factories with training. Employers would pay a levy of 1% of their workers' payroll towards a skills fund to support training in hard & soft skills. Funding is given to pre-approved public or private training service providers who apply for funding. The grants are self-sustaining because they boost employment and hence the volume of the payroll levy. The fund should have a high autonomy, with employers having majority seats on the Board to ensure the fund matches industry needs, and does not become too bureaucratic.
- LIDI and MoLSA should co-ordinate work to develop and manage the fund.

**Ownership**

- LIDI and MoLSA

**Benchmark**

- Malaysia – The Human Resources Development Fund (HRDF) is an organization under the Human Resources Ministry of Malaysia with a mandate to catalyze the development of competent local workforce. A payroll levy of one percent for employers with ≥ 50 employees (or, 0.5 percent for small enterprises that wish to participate) is used for partial reimbursement of approved training expenses. Those who have contributed a minimum of six months are then eligible to claim a portion of allowable training expenses up to the limit of their payroll levy payments for the year. In addition, the HRDF provides firms with grants for developing training plans.
- Singapore – The Skills Development Fund (SDF) support is used to support workforce upgrading programmes and to provide training grants to employers when they send their employees to attend training. Under this system, an employer tax on low-skilled labor finances government grants for training, including at government-provided training centers. The effect has been to penalize companies for long term use of unskilled labor and incentivize employer commitments to training. The fund is run by the Singapore Workforce Development Agency (WDA). The WDA provides financial incentives to companies that send their employees on training programmes that include Basic Education for Skills Training (BEST), Modular Skills Training (MOST), Worker Improvement through Secondary Education (WISE), Core Skills for Effectiveness and Change (COSEC), and Critical Enabling Skills Training (CREST).
Workers health and safety procedures and guidelines development and enforcement

Specific Constraint

- Absence of safe and quality workplace leading to failing buyers’ audit
- Absence of standard procedures and accountability leading to lack of safe work-place initiatives by factories

Context

As per PROCLAMATION NO. 4/1995 – Powers and Duties of MOLSA 1) Determine standards and measures for the safety and health of workers and follow up their implementation; 2) Collect, compile and disseminate information on safety and health of workers. However, the specific H&S standards and administrative procedures need development and requires enforcement. Global brands are also quite stringent about social compliance and Ethiopia must prepare itself to export to high end clients.

Details of Recommendation

- Detailed procedures and guidelines developed, supported by ILO.
- Two years implementation period would be provided to tanneries/factories to comply to the standard.
- MoLSA will conduct periodic audit of the factories to ensure if the factories are implementing the procedures. If not, a fine will be introduced.

Ownership

- MoLSA and LIDI cooperation

Benchmark

- All exporting factories are required to put in place workers health and safety procedures
Set-up worker service support centres to improve retention and address worker unrest related issues

Specific Constraint

- Lack of worker support services especially for women workers leading to low level of retention.
- Poor communication and relationship between factory managers and operators leading to labour unrest, affecting production.

Context

There are high turnover in factories, partly due to low wages, difficulty adjusting to factory life, and communication barriers between workers and managers. Turnover ranges from 10% to as high as 70% in a year for various factories. High turnover further exacerbates the challenge of low efficiency, as a result, any investment in skills development are not fully realized. Therefore, the factories are not investing in skills development which is creating a vicious cycle.

Details of Recommendation

- Establish workers support service centres near George shoe IP, Huajian IP and Modjo city to support workers with adjusting to industrial life. Specific services that would be provided to help workers make the transition to industrial life include counselling and mediation between workers and managers.
- Given that about 70% of the workforce in the sector are women, companies can build loyalty/retention by providing services that are likely to increase retention of female employees e.g. child care, reproductive health education etc.
- The worker support centers should also provide training for mid-level managers to understand workforce motivations, conflict resolution and communication to improve labour management relations and reduce the gap between local and expatriate staff.
- Such initiatives could be managed by MoLSA and the funding could be a PPP initiative as the factories have direct incentive to invest in such services.

Ownership

- MoLSA
- LIDI/MOTI
- EIC

Benchmark

- Global buyers including H&M, GAP, Levi Strauss, and Adidas partner with ILO’s Better Work programme to provide a Workplace Cooperation Program for its factories, that gives workers and managers the skills they need to resolve workplace issues. Brands pay for factory audits and related activities.
- Brandix, the largest exporter of apparel in Sri Lanka, has established an employee focused culture and CSR initiatives in their worker communities to build loyalty. They provide free transportation, onsite health clinics, and discounted grocery shopping. As 85% of employees are women, it provides child care, pregnancy care, and flexible-work arrangements.
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6. Ethiopian Leather Sector Roadmap
7. Appendix
   • Potential product mapping of Ethiopian leather resource
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Assessment of resources and capabilities-first step in narrowing down the product list to initially focus on (1-2 years of the roadmap)

### Key Steps to Create Initial Product Focus

1. Identify primary raw materials and inputs
2. Create key product groups and identify possible sub-products
3. Assess and map current production
4. Identify preliminary criteria to prioritize products to help the market grow

### Intended Outcome

1. Highlight current resource base in order identify product groups
2. Narrow down marketable product groups and products in line with categories used in the industry
3. Generate clear understanding of products relative to quantity, technology, skills and resource base
4. Create initial shortlist based on ease of implementation parameters
Hides are predominantly used for footwear and leather goods. However, alternative opportunities must be created to utilize Ethiopian hides.

<table>
<thead>
<tr>
<th>Leather Type</th>
<th>Product</th>
<th>Production status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Footwear</td>
<td>Suede footwear</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pigmented footwear</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nubuck</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Full grain or semi aniline</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Shoe lining</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Oily and waxy leather</td>
<td></td>
</tr>
<tr>
<td>Gloving</td>
<td>Industrial</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Motorcycling</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Gardening</td>
<td></td>
</tr>
<tr>
<td>Leather goods</td>
<td>Bags</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Wallets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>iPad covers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Purses</td>
<td></td>
</tr>
<tr>
<td>Clothing</td>
<td>Industrial Jackets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fashion Jackets</td>
<td></td>
</tr>
<tr>
<td>Upholstery</td>
<td>Furniture</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Leather Type</th>
<th>Product</th>
<th>Production status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Footwear</td>
<td>Suede footwear</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Waxy leather</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Military footwear</td>
<td></td>
</tr>
<tr>
<td>Gloving</td>
<td>Industrial /gardening</td>
<td></td>
</tr>
<tr>
<td>Leather goods</td>
<td>Bags</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Wallets</td>
<td></td>
</tr>
<tr>
<td>Clothing</td>
<td>Jackets</td>
<td></td>
</tr>
<tr>
<td>Upholstery</td>
<td>Bicast upholstery</td>
<td></td>
</tr>
</tbody>
</table>
Goat and sheep skin are applicable to a wider range of final products

<table>
<thead>
<tr>
<th>Leather Type</th>
<th>Goat skin</th>
<th>Sheep skin</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Footwear</strong></td>
<td>Pigmented footwear</td>
<td>Dress shoes (ladies)</td>
</tr>
<tr>
<td></td>
<td>Suede footwear</td>
<td>Men's shoe</td>
</tr>
<tr>
<td></td>
<td>Nubuck</td>
<td>Kids and Infant shoes</td>
</tr>
<tr>
<td></td>
<td>Oily waxy</td>
<td>specialist shoes (ballet dancing)</td>
</tr>
<tr>
<td></td>
<td>Athletic</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Shoe lining</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Kids and Infant shoes</td>
<td></td>
</tr>
<tr>
<td><strong>Gloving</strong></td>
<td>Sports and military</td>
<td>Military (pilots)</td>
</tr>
<tr>
<td></td>
<td>Service sector</td>
<td>Service-sector (Police)</td>
</tr>
<tr>
<td></td>
<td>Gents</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Motorcycling, mechanics</td>
<td>Dress</td>
</tr>
<tr>
<td><strong>Leather goods</strong></td>
<td>Bags</td>
<td>Mechanics</td>
</tr>
<tr>
<td></td>
<td>Wallets</td>
<td>Motor cycling</td>
</tr>
<tr>
<td></td>
<td>Purses</td>
<td>Military and police helmets</td>
</tr>
<tr>
<td></td>
<td>Ipad covers</td>
<td></td>
</tr>
<tr>
<td><strong>Clothing</strong></td>
<td>All forms of industrial and fas</td>
<td>Bags</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Wallets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ipad covers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>purses</td>
</tr>
<tr>
<td></td>
<td></td>
<td>All forms of fashion clothing</td>
</tr>
</tbody>
</table>
Waste processing is a heavily underexploited area that can lead to additional income generation for tanneries with minimal requirements.

<table>
<thead>
<tr>
<th>Tannery waste</th>
<th>Production status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td></td>
</tr>
<tr>
<td>Fiber board (reconstituted leather)</td>
<td></td>
</tr>
<tr>
<td>Glue</td>
<td></td>
</tr>
<tr>
<td>Gelatin</td>
<td></td>
</tr>
<tr>
<td>Other collagen based products</td>
<td></td>
</tr>
<tr>
<td>Hair</td>
<td></td>
</tr>
</tbody>
</table>
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Top footwear brands complete their production mainly in Asian countries. They are constantly on the move to new locations looking for cheaper production costs.

<table>
<thead>
<tr>
<th>Brand</th>
<th>Country</th>
<th>Manufacturer</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nike</td>
<td>Japan</td>
<td>“Tiger”</td>
<td>Exit approx. 1986-87</td>
</tr>
<tr>
<td></td>
<td>South Korea</td>
<td></td>
<td>Exit approx. 1993-94</td>
</tr>
<tr>
<td></td>
<td>Taiwan</td>
<td>Feng Tai, Yue Yuen</td>
<td>Exit approx. 1995</td>
</tr>
<tr>
<td></td>
<td>China</td>
<td>Feng Tai, Yue Yuen</td>
<td>Volume reduction / risk mitigation 2010</td>
</tr>
<tr>
<td></td>
<td>Vietnam</td>
<td>Feng Tai, Yue Yuen</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Indonesia</td>
<td>Feng Tai, Yue Yuen</td>
<td></td>
</tr>
<tr>
<td>adidas</td>
<td>South Korea</td>
<td>Apache, Yue Yuen</td>
<td>Exit approx. 1995</td>
</tr>
<tr>
<td></td>
<td>Taiwan</td>
<td>Apache, Yue Yuen</td>
<td>Exit approx. 1996</td>
</tr>
<tr>
<td></td>
<td>China</td>
<td>Apache, Yue Yuen</td>
<td>Volume reduction / risk mitigation 2010</td>
</tr>
<tr>
<td></td>
<td>Vietnam</td>
<td>Apache, Yue Yuen, Sportsgear</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Indonesia</td>
<td>Apache, Yue Yuen, Panarub</td>
<td></td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>Apache</td>
<td>Plan 50K / day, Act. &lt;15K</td>
</tr>
<tr>
<td>Timberland (VF)</td>
<td>Taiwan</td>
<td>Kingmaker, Sonych, Stella, Yue Yuen</td>
<td>Exit approx. 2000</td>
</tr>
<tr>
<td></td>
<td>China</td>
<td>Kingmaker, Sonych, Stella, Yue Yuen</td>
<td>Vol red / Risk 2012</td>
</tr>
<tr>
<td></td>
<td>Vietnam</td>
<td>Kingmaker, Sonych, Stella, Yue Yuen</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bangladesh</td>
<td>Sonych, Stella, Yue Yuen</td>
<td></td>
</tr>
<tr>
<td>Wolverine</td>
<td>Taiwan</td>
<td>Kingmaker, Sonych, Stella, Yue Yuen</td>
<td></td>
</tr>
<tr>
<td>(Merrel, Hush</td>
<td>China</td>
<td>Kingmaker, Sonych, Stella, Yue Yuen</td>
<td></td>
</tr>
<tr>
<td>Puppies, Sperry</td>
<td>Vietnam</td>
<td>Kingmaker, Sonych, Stella, Yue Yuen</td>
<td></td>
</tr>
<tr>
<td>etc)</td>
<td>Bangladesh</td>
<td>Sonych, Stella, Yue Yuen</td>
<td></td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>Farida &amp; Tata (Manufacturing discontinued)</td>
<td></td>
</tr>
</tbody>
</table>
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November, 2018