Ministry of Industry

ETHIOPIA LEATHER SECTOR VALUE CHAIN STRATEGY (2016-2020)

NOVEMBER 2016

Facilitated by COMESA Leather and Leather Products Institute (LLPI)

ETHIOPIA LEATHER SECTOR VALUE CHAIN STRATEGY (2016-2020)[1]

[1] The period is in line with the GTP II

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AGOA	: African Growth Opportunities Act
BoT	: Balance of Trade
CBE	: Commercial Bank of Ethiopia
COMESA	: Common Market for Eastern and Southern Africa
CSA	: Central Statistical Office
DDB	: Duty Drawback
ECG	: Export Credit Guarantee Scheme
EFY	: Ethiopian Fiscal Year
ELIA	: Ethiopian Leather Industries Association
ESLSE	: Ethiopian Shipping and Logistics Service Enterprise
ERCA	: Ethiopian Revenue and Customs Authority
ESAP	: Economic Structure Adjustment Program
FAO	: Food and Agriculture Organization
FDI	: Foreign Direct Investment
FMSEDA	: Federal Micro and Small Enterprises Development Agency
GCI	: Global Competitiveness Index
GDP	: Gross Domestic Product
GTP	: Growth Transformation Program
HS	: Harmonized System
HSCA	: Hides and Skins Collectors Association
LDC	: Less Developed Countries
LIDI	: Leather Industries Development Institute
LLPI	: Leather and Leather Products Institute of COMESA
LMIS	: Livestock Marketing Information System ?
MBW	: Bonded Warehouse
MOFED	: Ministry of Finance and Economic Development
MOFEC	: Ministry of Finance and Economic Cooperation
MoI	: Ministry of Industry
MoLF	: Ministry of Livestock and Fisheries
MSMEs	: Micro, Small and Medium Enterprises
NBE	: National Bank of Ethiopia
PESTEL	: Political Economic Social Technological and Legal
REACH	: Registration, Evaluation, Authorisation and Restriction of Chemicals
NBE	: National Bank of Ethiopia
SWOT	: Strength Weaknesses Opportunities and Threats
SMART	: Specific Measurable Achievable Realizable and Time Bound
UNCTAD	: United Nations Conference on Trade and Development
UNIDO	: United Nations Industrial Development Organization
VC	: Voucher System

FORWARD BY THE STATE MINISTER OF INDUSTRY

Ethiopia is one of the few countries in the globe endowed with huge livestock resource, which is a foundation for developing the Leather Industry. The Ethiopian Government recognizes that the Leather Sector could substantially contribute to the transformation of Ethiopia to a lower middle-income country by 2025.

Historically many developed countries have transformed their economies at the back of the leather sector and textiles. In 2010, the Government of Ethiopia established the Leather Industry Development Institute (LIDI) to facilitate the development of the leather sector through transfer of leather sector technologies and to enhance the competitiveness of the industry. Promoting value addition is increasingly being recognized as a promising approach to address not only economic development, job creation and inclusive growth, but a wider range of social and environmental development issues. However, despite the fact that Ethiopian economy has registered robust growth in the period 2010-2015, and the efforts and measures taken by the Government to effectively exploit this huge resource, the performance of the sector lagged behind the targets that were set under GTP I.

Inadequate capacity in resource optimization and productivity improvement; i.e. low level of technological and managerial capability, shortages of quality hides and skins and finished leather, low level of leather finishing technological capability, dependence on imported accessories and other intermediate inputs, inadequate access to suitable finance, etc. were some of the variables that are undermining the growth of the sector.

I am both pleased and thankful that the strategy before you is the product of thoroughly consultative process between the private, public sectors and Academia that has set ambitious goals to improve quality, productivity and market access, and enhance the value addition implementation capacity of the leather sector at all levels of the value chain.

I wish to express my gratitude to COMESA-Leather and Leather Products Institute (COMESA/LLPI) and to all those who worked tirelessly to produce this Strategy document which is also in line with our country's second growth and transformation plan (GTPII). Its launch will mark a significant milestone in our development trajectory that is underpinned by our GTP II. I commend and invite both our development partners and our private sector in particular to join the Government to put a coordinated effort to realize the goals set in the Strategy document.

I am confident that this national leather sector value chain strategy will guide our investment towards more effective and more efficient industry that will make a transition to higher levels of productivity and value added production using efficient technologies and sustainable processes, by 2020.Allow me once again to express my gratitude and thankfulness to COMESA/LLPI for the assistance it rendered in crafting the strategy and for funding the whole process.

Tadesse Haile
State Minister
Ministry of Industry, Ethiopia

MAP OF THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

EXECUTIVE SUMMARY

The Leather Sector presents many opportunities to the Ethiopian Economy ranging from employment generation, export earnings, contribution to Government revenue and other multiplier contributions to the rest of the Economy. The growth of the Leather Sector will contribute significantly to the transformation of the Ethiopian economy in the next five years.

Ethiopia's population was estimated at 96 million in 2015, thus becoming the second most populous nation in Sub- Saharan, after Nigeria. The country has a Federal Government composed of nine Regional Governments and two City Administrations. The Government has implemented many policies and programs, aimed at growing the economy in order to improve the livelihoods of its people. The latest policy framework is the Growth and Transformation Plan II (GTP II). The GTP is anchored on the following specific objectives:

- Maintain at least an average real Gross Domestic Product (GDP) growth rate of 11.2 % and attain Millennium Development Goals (MDGs);
- Expand and ensure the qualities of education and health services and achieve MDGs in the social sector;
- Establish suitable conditions for sustainable nation building through the creation of a stable democratic and developmental State; and
- Ensure the sustainability of growth by realizing all the above objectives within a stable macroeconomic framework.

The Government has prioritized the growth of the manufacturing sector, as GTP II calls for an accelerated growth of manufacturing sector than the rest of other sectors. Its contribution to GDP is targeted to grow from 4% to 8% by 2020.

The leather and leather products, textile and garments, metal and engineering, and chemical and pharmaceutical manufacturing subsectors, were identified as the main priority sectors to contribute substantially to the growth of the Manufacturing Sector. This strategy thus has a special strategic fit to contribute to successful execution and attainment of GTP II.

Ethiopia is well endowed with livestock, which is a foundation of developing the Leather Sector, once the necessary technical, economic, human and infrastructure resources are put in place. In 2011 the country had 53.4 million cattle, 25.5 million sheep and 22.7 million goats (CSA, 2011). The number of livestock in 2015 increased to 56.7 million, 29.3 million and 29.1 million for cattle, sheep and goats respectively (CSA, 2014/15).

As per 2015 statistics, the leather industry was estimated to have 72 large and formal enterprises: 33 tanneries, 17 shoe manufactures, 3 gloves makers, and 19 leather and leather goods industries. There are however several hundreds of MSMEs operating in markets and backyards manufacturing an assortment of footwear, leather goods and garments.

The total output target of GTP I was US$ 1.7 billion, however the industry only earned US$ 472.2 million that translates to 73% negative variance. The underperformance was attributed to: a shortage of sufficient and quality hides and skins; inadequate managerial capacity across all the functional areas; limited technology utilization and resource optimization; limited access to finance; long lead-times in the importation of chemicals and accessories; limited preparedness to meet the minimum export requirements of finished leather; low factor productivity and low margins from the export of footwear, among others. According to GTP II, leather output should increase from 301 million square feet in 2014/15 to 555.1 million square feet in 2019/20. The

output of footwear and gloves is projected to grow more than fivefold in the same period, at the back of foreseen productivity, capacity utilization and employment creation improvement.

Globally it is estimated that a financial injection estimated at US$3.2 billion will be needed to support the production of finished leather, footwear and gloves in the GTP II implementation period of 2015 to 2020. Production of finished leather requires a global financial input of US$2.8 billion, which translates to 87.4% of the total estimated bill.

The vision and mission of the National Leather Sector Value Chain Strategy are as follows :

- **Vision:** To be a global leader in the manufacturing and trading of environmental friendly and high quality leather products.

- **Mission**: To facilitate the provision of technical, human and financial resources required to stimulate the growth and competitiveness of Ethiopian Leather Value Chain

Based on the Mission, the specific Strategic Objectives are listed below, and each of them is supported by SMART, output based subjective, which will enhance the progress in the implementation of the strategy.

- To improve supply chain management across the whole value chain
- To enhance resource optimization across the value chain;
- To facilitate exports expansion in high returns markets
- To promote technological transfer and up gradation
- To enhance total quality management across the value chain
- To facilitate resource mobilization
- To support the development of Clusters
- To facilitate horizontal and vertical collaboration of chain players and other relevant stakeholders
- To promote environmental and sustainable production systems across the value chain.

The Ministry of Industry of the Federal Democratic Republic of Ethiopia will lead in the implementation of the strategy through the Leather Industries Development Institute (LIDI). Being a stakeholder driven strategy, the Private Sector, other Government Ministries and Departments and development partners, who have a statutory responsibility, will play a significant role in the implementation of the strategy.

CHAPTER I: CONTEXT SETTING

1.0 Background

Ethiopia's population was estimated at 96 million in 2015, thus becoming the second most populous nation in Sub- Sahara, after Nigeria. The country has a Federal Government composed of nine Regional Governments and two Chartered City Administrations. The Government has implemented many policies and programs, aimed at growing the economy in order to improve the livelihoods of its people. The latest policy framework is the Growth and Transformation Plan (GTP). The GTP is anchored on the following specific objectives:

- Maintain at least an average real Gross Domestic Product (GDP) growth rate of 11.2 % and attain Millennium Development Goals (MDGs);
- Expand and ensure the qualities of education and health services and achieve MDGs in the social sector;
- Establish suitable conditions for sustainable nation building through the creation of a stable democratic and developmental State; and
- Ensure the sustainability of growth by realizing all the above objectives within a stable macroeconomic framework.

Ethiopia's recent macroeconomic performance has continued to be strong, although with some rising domestic and external vulnerabilities. The Government has managed the inflation pressures by prudent fiscal and monetary policies as well as regulatory and administrative measures. The strong macroeconomic environment has elevated Ethiopia to become a country of great advantages that can off-set the inherent weaknesses associated with developing countries. This has in turn stimulated Foreign Direct Investment (FDI) inflows from Turkey, India, China, Taiwan, Korea, USA and UK[2] among others. FDI increased from US$ 200 million to US$ 1.2 billion in 2000 to 2014 respectively. This significant growth is spread over different sectors, including leather.

GTP I was implemented in 2010-15 (2003-2007) (EFY), and contributed to GDP with growth that has averaged 10.1% annually over the period. Agriculture, industry and service sectors grew by 6.6%, 20.2%, and 10.8% respectively. The Services Sector expanded at the back of increasing tourism volumes, financial intermediation and geopolitical factors, Ethiopia, being the host nation of the African Union Commission and the Continental Air Travel Hub. The favorable economic performance was attributed to activities in agriculture, industry and service industries that by 2015, contributed 2.5 %, 3.0 % and 4.7 % to the GDP respectively. The significance of agriculture declined from 44.6% to 40.9% in the period 2010 to 2015 respectively, whilst manufacturing marginally rose from 4% to 4.1%. Despite the rapid growth, the real sector of the economy is still biased towards the primary sector, hence there is a need for deliberate policy initiatives to promote value addition in the manufacturing sector that could stimulate the economic transformation of Ethiopia. Table 1 summarizes the economic structural changes in the period 2010-15 (2003-2007(EFY).

[2] Ethiopia Information KIT for Japanese Business (2015)

Table 1: Percentage Distribution of GDP by Economic Activity at Current Prices (2003 Ethiopian calendar base year)

Ethiopia Calendar	2003	2004	2005	2006	2007	
Sectors/	2010/11	2011/12	2012/13	2013/14	2014/15	Average
Agriculture	44.6	47.9	44.8	41.8	40.9	44
Mining & Quarrying	1.4	1.3	1.2	0.9	0.5	1.06
Manufacturing	4	3.7	4	4.3	4.1	4.02
Construction	4	4.3	5.7	8.6	11	6.72
Wholesale & Retail	14.9	14.9	14.2	15.1	14.4	14.7
Hotels and Restaurants	3.6	3.4	4	4.6	5.2	4.16
Real Estate	9.3	7.5	7.4	6.7	6	7.38
Other	18.2	17	18.7	18	17.9	17.96
Total	100	100	100	100	100	100

Source: MOFED: Federal Democratic Republic of Ethiopia

The manufacturing sector is the engine of economic transformation, because of its potential to create direct and indirect jobs and ignite multiplier effects across the whole economy. The Government has prioritized the growth of the manufacturing sector, as GTP II calls for an accelerated growth of manufacturing sector than the rest of other sectors. The Manufacturing sector contribution to GDP is targeted to grow from 4% to 8% by 2020. This policy thrust is being supported by attracting investment through the expansion of industrial parks and the provision of investment incentives. A combination of export and import-led development manufacturing activities are being promoted. The leather and leather products, textile and garments, metal and engineering, and chemical and pharmaceutical manufacturing subsectors, were identified as the main priority sectors to contribute substantially to the growth of the Manufacturing Sector.

1.2 Ethiopia Global Competitiveness Performance

The improved macroeconomic performance of Ethiopia has also been recognized by its improved rating globally, based on the Global Competitiveness Index (GCI). Since 2004, the Global Economic Competitiveness report ranks the world's nations according to the *Global Competitiveness Index*. The report is viewed globally as authoritative, and thus the rating provided is used by many global investors in making their business decisions. Countries that are negatively rated are usually not attractive to foreign investors. Ethiopia's performance was rated 109 out of 140 countries, outperforming several African countries. A summary of Ethiopia's ranking is presented in Table 2.

Table 2: Global Competitiveness Performance of Ethiopia

Indicator	2016	
	Rank out of 140 Countries	Score
Overall Competitiveness[3]	109	3.7
Property Rights	107	3.6
Burden of Government Regulations	74	3.4
Quality of Electricity Supply	128	2.1
Macroeconomic Environment	76	4.7
Agriculture Policy Cost	31	4.3
Burden of Customs Procedure	119	3.6
Labour Market Efficiency	62	4.3
Affordability of Financial Services	112	3.4
Ease of Access to Loans	121	2.1
Business Sophistication	108	3.5
Local supplier quantity	127	3.7
Local Supplier quality	124	3.5
State of Cluster development	103	3.3
Production Process sophistication	99	3.4
Extent of Marketing	127	3.5
Innovation	81	3.2
Pay and Productivity	80	3.8
Technology adoption	117	3.9
Internet use	135	2.9
Willingness to delegate authority	109	3.4

Source: World Economic Forum (2016)

The scoring is based on a 1-7 scale (higher average score means higher degree of competitiveness) that are listed in column 3 of Table 2. This implies that a score of 3.5 and above is positive, the opposite is true for any score below 3.5. Overall competitiveness is at 3.7, which is a reflection that Ethiopia has made progress to improve its competiveness. Ethiopia should continue to implement policies and improve on its performance of a number of dimensions listed in Table 2, among others. The improved competitiveness is positively correlated with the improved FDI inflows and economic performance. The lower scores below the 3.5 threshold are infrastructure, higher education and training, ease of access to financial loans, innovation, use of internet and willingness to delegate authority. These constraints were also identified as factors undermining the growth of the leather sector in Ethiopia.

Although the World Economic Forum rates low Ethiopia on infrastructure, it is fundamental to note that Ethiopia has made tremendous strides in improving its infrastructure, by investing 60% of its annual budget on infrastructure. Examples of some flagship infrastructure developments in recent years include the construction of a railway line from Addis to Djibouti, which will significantly contribute to a reduction in transport cost, which is one of the main constraints undermining efficiency in movement of goods inwards and outwards. It is estimated that transport cost per ton currently estimated at US$42.8[4] by road, is projected to decline to the range of US$15.3 – US$35.6, this will lead to reduction in the cost of doing business and

[3] Note the overall competitiveness is not an average of the variables listed in Table 2.
[4] Dr. Mhohatra D. R. (2016): An Economic Analysis of Djibouti- Ethiopia Railway Project, ISSN 2286-4822, European Academic Research, www.euacademic.org

consequently push down on structural causes of inflation and enhance competitiveness in Ethiopia. Other benefits foreseen with the operations of the railway line are:

- a high proportion of freight traffic from road is diverted to railway transportation because of the operation of this rail:
- reduction in numbers of truck on road reduces the annual road maintenance;
- the vehicular pollution gets reduced with this project as the rail will be run on electricity and there is less use of gasoline and diesel and
- thus, there will also be high amount of fuel savings and saving in foreign exchange.

In addition to the above the construction of the Great Renaissance dam and the recently completed Gigel Ghibe – 3 power plant, will significantly improve energy supply and also push down power tariffs, which in turn will contribute to reduction in the costs of production and ultimately attract more Foreign Direct Investment and increased foreign currency earning through the export of electricity.

The above positive development, have led Fitch and Moody and Standard and Poor to conclude that Ethiopia is on the right track in terms of its economic growth, infrastructure development and provision of social services. In addition these leading rating institutions have also pointed out that the success that Ethiopia gained in the education sector, particularly making primary education accessible to all will significantly enhanced the development of the country.

1.2 The Rationale for Developing the Leather Value Chain Strategy

Strategy, as a road map, is essential in defining the overall goal and also setting specific interventions, which defines the how of achieving the set goals. The rationale for developing this Leather Value Chain strategy is based on the following fundamental issues:

- Ethiopia has a significant potential for developing the Leather Sector because it has a large livestock base, ranking the tenth globally;
- Most segments of the leather value chain such as manufacturing of footwear, leather goods and garments are labour intensive, hence the sector has a high job creation propensity;
- Historically many developed countries have transformed their economies at the back of the leather sector and textiles, these are quick win sectors;
- There is a growing demand of footwear, leather products globally; and
- The sector has strong linkages with other sectors such as the meat, energy, water, chemicals and textiles, thus its growth may stimulate economic activities across the economy.

1.3 The Leather Value Chain Strategy Relationship with GTP and Industrial Policy

The overall growth and transformation thrust of Ethiopia is built around the GTP. The Leather Value Chain Strategy must contribute directly to the attainment of the GTP; hence its interventions must be logically linked with the GTP. Taking this into cognizance, the Ethiopian Leather Value Chain Strategy logical linkage and the degree of complementarities with the GTP

was undertaken and is summarized in Table 3. An **x** signifies that there is a linkage between leather value chain strategy objectives and the pillars of GTP. The following pillars of GTP's relationship with the objectives of the Leather Value Chain Strategy is illustrated in Table 3

- Pillar 1: Sustaining rapid and equitable economic growth;
- Pillar 2: Maintaining agriculture as major source of economic growth;
- Pillar 3: Creating conditions for the industry to play key role in the economy;
- Pillar 4: Enhancing expansion and quality of infrastructure development;
- Pillar 5: Enhancing expansion and quality of social development;
- Pillar 6: Building capacity and deepening good governance;
- Pillar 7: Promoting gender and youth empowerment and equity;
- Pillar 8: Building climate resilient green economy.

Table 3: The Strategy Relationship with GTP

Leather Value Chain Strategy Objectives	**GTP Pillars**							
	1	2	3	4	5	6	7	8
Improve supply chain management across the whole value chain	x	x	x					
Enhance resource optimization	x	x	x					
Facilitate exports expansion in high returns markets	x		x					
Promote technological transfer and up gradation	x		x					
Enhance total quality management across the value chain	x		x					
Facilitate resource mobilization	x		x					
Support the development of Clusters				x			x	
Facilitate horizontal and vertical collaboration of chain players and other relevant stakeholders			x		x	x		
Promote environment management and sustainability	x							x

The implementation of the Leather Sector Value Chain Strategy will contribute towards the attainment of specific pillars of the GTP, as illustrated in Table 3. The Strategy objectives are significantly linked to Pillars One and Three of GTP.

1.4 Industrial Development Strategic Plan (2013-2025)

The Ethiopia Industrial Development Strategic Plan (2013-2025)'s Vision is to ***"Building an industrial sector with the highest manufacturing capability in Africa which is diversified, globally competitive, environmentally-friendly, and capable of significantly improving the living standards of the Ethiopian people by the year 2025"*** In order to achieve this Vision, the industrial development should grow rapidly in absolute and relative terms; and the set targets are as follows:

- Increasing the share of the industry sector as % of GDP from the current 13% to 27% by 2025;
- Increasing the share of the manufacturing sector as % of the GDP from the current 4% to 17% by 2025

Table 4 summarizes the strategic linkage between the Ethiopian Industrial Development Strategic Plan (2013-25), with its Leather Value Chain.

- Objective 1: To further expand and develop the existing manufacturing industry priority sectors;
- Objective 2: To diversify the manufacturing sector to new sectors;
- Objective 3: To enhance Enterprise Cultivation and Entrepreneurship;
- Objective 4: To Increase public, local and foreign investment;
- Objective 5: To develop and operate Industrial zones and cities.

Table 4: Strategy Relationship with Industrial Strategic Plan

Leather Value Chain Strategy Objectives	Industrial Strategic Plan Objectives				
	1	2	3	4	5
Improve supply chain management across the whole value chain	x		x		
Enhance resource optimization				x	
Facilitate exports expansion in high returns markets		x		x	
Promote technological transfer and up gradation	x	x			
Enhance total quality management across the value chain			x		
Facilitate resource mobilization				x	
Support the development of Clusters			x		x
Facilitate horizontal and vertical collaboration of chain players and other relevant stakeholders			x		
Promote environment management and sustainability					

1.5 Background of the Ethiopian Leather Value Chain

Ethiopia is well endowed with livestock, which is a foundation of developing the Leather Sector, once the necessary technical, economic, human and infrastructure resources are put in place. Ethiopia had 53.4 million cattle, 25.5 million sheep and 22.7 million goats (CSA, 2011). The livestock population increased to 56.7 million, 29.3 million and 29.1 million for cattle, sheep and goats respectively (CSA, 2014/15). The hides and skins potential is estimated as summarized in Table 5[5].

Table 5: Livestock, Hides and Skins Production

Item(s)	Population (million) (2015)[6]	Raw Leather Production (million pieces)	Off-take Rate (%)[7]
Cattle	56.7	4.2	7.5
Sheep	29.3	8.8	30
Goat	29.1	8.7	30
Camel	1.2		

Source: Ethiopia Central Statistics Agency (2015)

As per 2015 statistics, the leather industry was estimated to have 72 large and formal enterprises: 33 tanneries, 17 shoe manufactures, 3 gloves makers, and 19 leather and leather goods industries. There are however several hundreds of MSMEs operating in markets and backyards manufacturing an assortment of footwear, leather goods and garments. The

[5] There is no recent study on the livestock slaughter rates in Ethiopia, consequently the off take rates are based on stakeholders views.
[6] Federal Democratic Republic of Ethiopia Central Statistical Office 2014/15 (2007 E.C.)
[7] Estimates based on stakeholders consultations.

performance summarized in Table 6 takes into account only the above listed enterprises, thus it excludes the informal sector.

Table 6: Performance of Leather and Leather Products under GTP I

No.	Description	Base year 2009/10	2013/14	Growth rate (%)
1	**Gross value of production (Billion Birr)**			
2	Leather and leather products	1.6	9.5	
3	Export earnings (USD million)	75	133	77.3
4	Current producing Capacity			
	• finished leather (million square feet)	6.69	156.72	124
	• shoe (pair million)	2.67	7.38	176
	• glove(pair million)	-	1.65	
	• goods and garments (in millions)	0.019	1.3	1.3

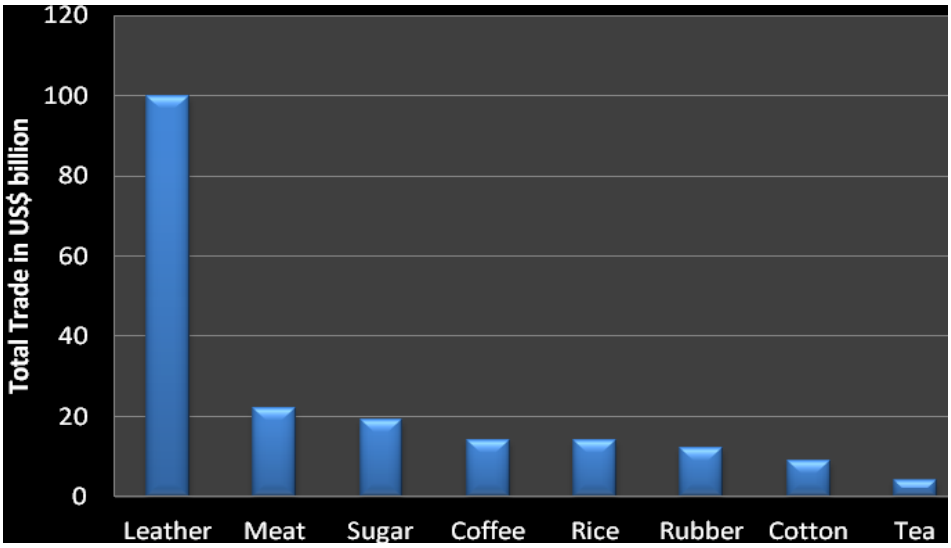
Source: GTP II

In the period 2010-15, the product mix of the industry changed from focusing on the production of crust to finished leather, footwear and gloves production. The total output target of GTP I was US$ 1.7 billion, however the industry only earned US$ 472.2 million that translates to 73% negative variance. The underperformance was attributed to: a shortage of sufficient and quality hides and skins; inadequate managerial capacity across all the functional areas; limited technology utilization and resource optimization; limited access to finance; long lead-times in the importation of chemicals and accessories; limited preparedness to meet the minimum export requirements of finished leather; low factor productivity and low margins from the export of footwear, among others. A detailed analysis of these issues is addressed in Chapter II.

1.6 Global Importance of the Leather Value Chain

Broadly, the leather value chain has four main stages, namely rearing of livestock; production of hides and skins, tanning and production of footwear and other leather products. The leather value chain globally is estimated at US$ 100 billion.[8] A comparison of this value chain with other commodities reveals that its trade is greater than the combined trade of meat, sugar, coffee, rice, rubber, cotton and tea; see Figure 1. Despite this immense importance, the sector has not received much attention, especially in many developing countries, when compared with other commodities, whose production and marketing were championed by Government Institutional support before the introduction of Economic Structural Adjustment Programs (ESAP), for example Meat Commission, Tea or Coffee Boards, etc. The absence of an institutional support to the leather value chain has retarded its growth, as it has not attracted the desired policy and financial support from Central Governments and other relevant stakeholders.

[8] The US$ 100 billion excludes leather blended products, e.g. sports shoes and fashionable bags.



Source: Computed within COMESA/LLPI reports and FAO 2012

Figure 1 : Global Importance of the Leather Value Chain

The global trade in the leather value chain grew over the period 1993 to 2015. The fastest growing segment was that of footwear with leather uppers, which went up by 97%, followed by tanned leather at 49.6 % and raw hides and skins grew marginally by 14.9%. Global growth is in favor of value added products, which is in line with Ethiopia's overall strategy of promoting value addition and the manufacturing sector.

1.7 Summary of Key Issues

The following are key issues emerging from the above analysis:

- The Ethiopian economy has registered robust growth in the period 2010-2015;
- Marginal structural change was recorded with agriculture and manufacturing sector shrinking and expanding slightly respectively;
- Ethiopia's Global Competitiveness Index is improving;
- There is strong strategic linkage between GTP and the specific objectives with the leather value chain strategy;
- The leather and leather products industry performance was significantly below the targets, which were set in GTP I;

Globally, the leather sector is growing, especially in the footwear production segment.

CHAPTER II: SITUATIONAL ANALYSIS OF THE VALUE CHAIN

The Leather Sector in Ethiopia has an immense potential to generate value addition, employment, exports and trigger other multiplier effects across the economy, because of its large livestock resource and competitively priced labour force. This Chapter presents a situational analysis of the Value Chain covering a broad range of issues impacting on its dynamics from production to marketing. This analysis builds a foundation for identifying strategic interventions that are critical, enhancing the competitiveness of the industry.

There is a general consensus that the Ethiopian Leather Sector could substantially contribute to the transformation of Ethiopia to a lower middle income country by 2025; because of the abundant livestock base, significant support from Government, the entrepreneurship drive and a large pool of trainable work force. It is asserted in this analysis that resource endowment is a necessary but not sufficient condition to raise the competitiveness of the Ethiopian leather industry to be among the best countries for example Italy, China, Turkey and India, among others. There is evidence that some countries, among the globally top ten footwear manufacturers, are not resource endowed, however their performance is based on technology and efficiency across all managerial functional areas. The hypothesis of this strategy is that if Ethiopia combines its resource base with efficiency, it can join the top ten globally leaders in the industry.

2.1 Industry Structure and Value Chain Map

The leather value chain has the full range of activities required to bring leather products (e.g. footwear, garments and goods) to the final consumers passing through the different phases of production, processing and delivery. A strong value chain exists when all the stakeholders in the chain operate in a way to maximize the generation of value along the chain. The weaker nodes of the value chain undermine economic optimization of the chain. The following issues such as weak governance, production of sub-standard products and exploitation of other value chain actors, have a far reaching negative impact to the sustainability of a value chain.

There are no recent studies of the market structure of the Ethiopian leather industry; however, there is evidence that most of the components of the ideal leather value chain are represented, from animal slaughter to the marketing of the leather products. All segments of the Ethiopian leather value chain have significant deficits when compared to leading leather manufacturing countries in the World. For instance the adequacy of supply, quality of the goods produced and services provided, total factor productivity, timely delivery and coordination of the sector, are some of the variables that are undermining the growth of the sector.

Collaboration vertically and horizontally across the chain was reported to be weak. Ethiopia Leather Industries Association (ELIA) represents mainly tanners and there is limited membership of FDI enterprises, footwear and leather goods enterprises. Hides and Skins Collectors, have their own organization, however, it was reported that there is limited direct interaction with ELIA, which is very important to deal with hides and skins quality and availability issues. Associations are normally expected to have a balanced membership, in order for them to provide balanced inputs to Government policy formulation and decision making. Alternatively there could be several associations representing different segments of the value chain, which could in turn feed into an Apex Council. According to ELIA organization structure, it represents tanneries, footwear and leather goods manufacturers. These industrial segments are

represented with main committees under the Board of Directors of ELIA. Despite this, the footwear industry is of the view that their interests are not well represented by ELIA. This is an area that requires further investigations during the implementation of the Strategy. The Structure of the Ethiopian Leather Value Chain is summarized in Figure 2.

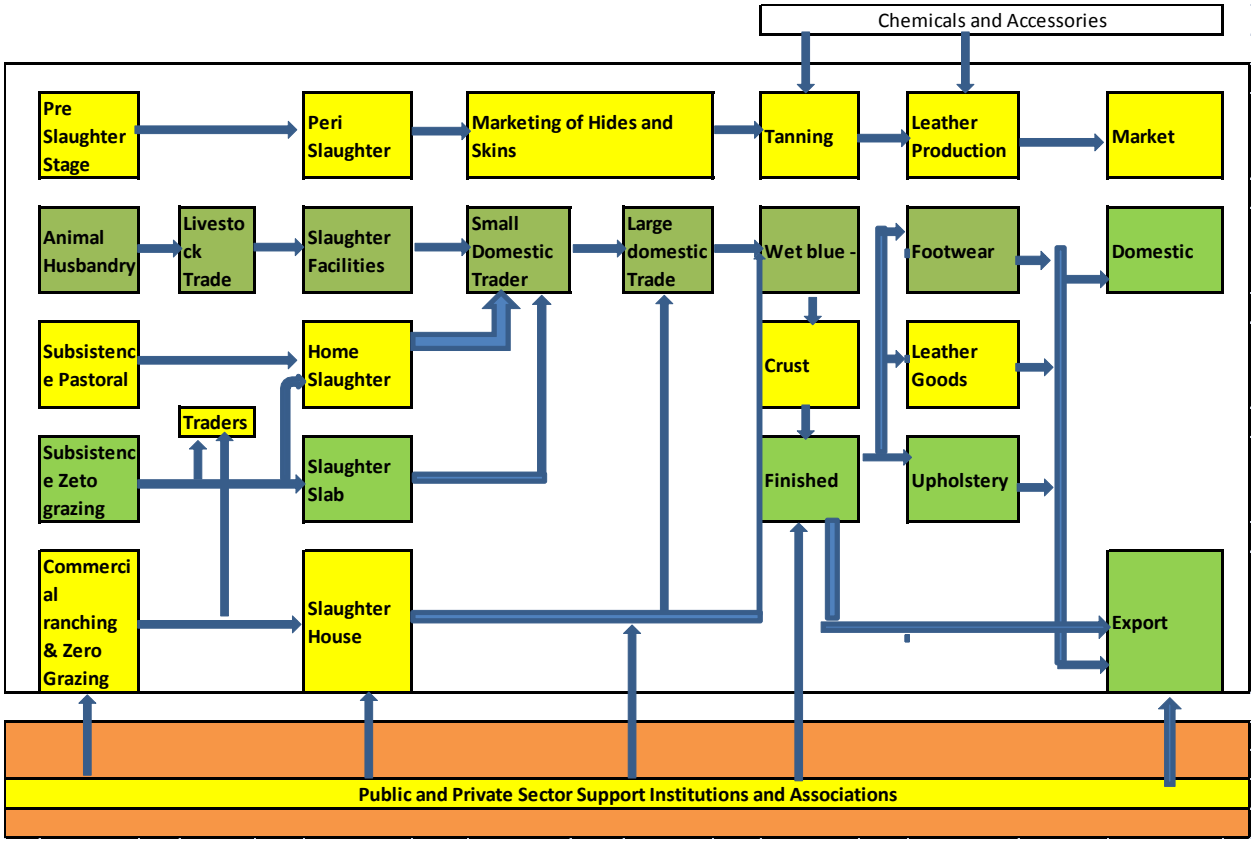


Figure 2: Structure of Leather Value Chain of Ethiopia

The status on the supply of hides and skins is currently not well documented as there are divergent views between tanners and traders and collectors of hides and skins. The industry is gravitating towards concentration; a number of footwear factories, are vertically integrated with tanneries, and this scenario is being replicated by new FDI projects. Whereas this is positive for the footwear factories, which are part of the integration process, however, it may result in those independent footwear and leather goods factories facing a shortage of finished leather.

Hides and Skins Traders reported that the prevailing prices of hides and skins were very low and that it was compromising their viability. The price for bovine hides and skins was quoted between US$ 0.28-0.30 per Kg. Prices of the same commodities in neighboring countries, are in the range between US$ 0.90 to US$ 1.00, this could be attributed to quality variations. This is an area requiring further interrogation as a strategic intervention. Table 7 illustrates that Tanneries in Ethiopia have a competitive advantage with regards to the prices of raw hides and skins. Based on prevailing prices of finished leather, Ethiopian firms are enjoying superior gross margins than Kenya, Uganda and Zimbabwe.

Table 7: Finished Leather Gross Margin Analysis

Country	Raw hides and skins (US$)	Global Finished Leather Price (US$)	Gross Margins (US$)
Ethiopia	0.28	1.30 to 1.75	1.02- 1.47
Kenya	0.90	1.30 to 1.75	0.10 – 0.85
Uganda	1.00	1.30 to 1.75	0.30 -0.75
Zimbabwe	1.00	1.30 to 1.75	0.30 -0.75

2.2 Performance of the Leather Industry 2010-15

The general performance of the Leather Industry in the period 2010-15, was guided by GTP I. Specific output and export targets were set. A broader analysis of the performance of the industry is summarized in the next sections.

2.2.1 Capacity Utilization

Capacity utilization is the relationship between output that is actually produced with the installed equipment, and the potential output which could be produced with it, if capacity was fully used. Capacity utilization levels of around 80 to 85% are generally considered to be optimal. Tanning of sheep and goats skins' capacity utilization was 41% and that of bovine hides was near full capacity at 79.44%. The low capacity utilization has been attributed to a number of constraints, which, among them include: shortage of quality raw materials, foreign currency shortage, cash flow challenges among tanneries; inadequate managerial capacities across the value chain; low global market of leather and leather products. See Table 8 for details.

Table 8: Tanneries and Footwear Factories Capacity Utilization 2015

Category	Installed Capacity	Capacity Utilization	Average Capacity Utilization (%)
Footwear (pairs)	10,892,000	7,374,920	64.13
Tanning (Bovine hides-pieces)	2,550,800	2,026,288	79.44
Tanning (Skins-pieces)	45,466,400	18,937,238	41.65

Source: LIDI

Operating below optimum capacity increased the average cost per unit of production, consequently undermining the profit of the sector globally, as prices are given. Capacity utilization of below 50%, are associated with operating below breakeven capacity. This is not sustainable in the long run, because the generated profits will not be sufficient to cover costs of repairing machinery, capitalize and service loans. The cash flow situation of the majority of tanneries was reported weak and approximately 75% of the tanneries failed to pay suppliers of raw hides and skins within a reasonable period of 60 days. This trend, if it remains unchecked, threatens the viability of the Hides and Skins Collectors, and consequently the whole industry.

2.2.2 Exports: Planned Targets versus Performance

The export targets of leather and leather products were set at US$ 0.5 billion by 2015 under GTP 1. In order to stimulate export growth of value added products; an export tax on crust of 150% was imposed in 2012. Despite this measure, the negative variance between planned total

and actual exports grew from US$ 145,456 (200%) to US$ 364,033 (274%) in the period 2010 to 2015. The variation reflects significant challenges, which were attributed to a plethora of constraints. In addition to these, the focus to export finished leather at minimum brought in new challenges to the industry, because the production and export of finished leather requires additional technical and managerial skills. Furthermore, the fashion cycles and quality specifications of finished leather are short and more demanding, respectively, than that of crust. There is a general consensus in the industry that the promotion of value addition was necessary, however, the industry was not prepared enough to move to the higher level. Up to date, there are still major technical, managerial, marketing and cash flow management gaps in many tanneries to operate at production and trade of finished leather at minimum.

In addition to the above, the general macroeconomic conditions brought another dimension, which made domestic prices of footwear and leather goods to be more attractive than export prices, especially for the export quality (unbranded). The average export price of man formal footwear per pair is US$ 11, however the shoe of the same quality is retailing in the range of Birr 700 to 800, (US$ 33.33 – US$ 38.09) in the domestic market. It is estimated that 70-90% of export quality footwear and leather goods, respectively, produced in Ethiopia are being sold in the domestic market. The situation is different with regard to finished leather, where the export market is offering favorable price. Despite the superiority in export prices for finished leather, its exports were also below the set target, hence, the price difference could not be the sole factor to justify the failure of Ethiopia Leather Sector to meet the set target. In Figure 3, the planned exports are compared against the actual earnings.

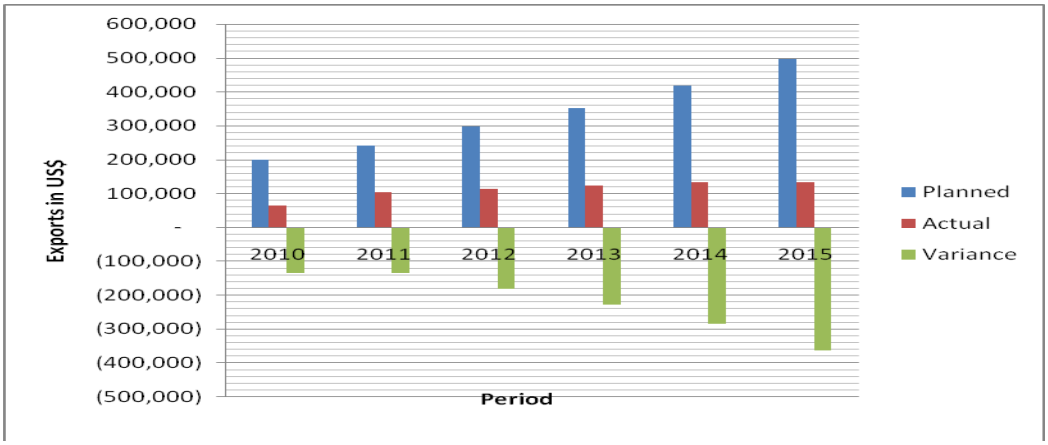


Figure 3: Planned Versus Actual Exports

The picture displayed in Figure 3 cuts across all the segments of the leather value chain, that is, all products segments have underperformed with regard to the set export targets. The global market of footwear is very competitive; hence, profitability to exporters from many countries is not a function of the level of price only, but of economies of scale and competitiveness. The Footwear Enterprises in Ethiopia are smaller when compared with leading exporting countries, hence, they suffer from diseconomies of scale in global markets. Their competitiveness was further worsened because they were operating below capacity in the same period.

Empirically it has been demonstrated that Developing Countries participation in the production of branded products, is associated with lower earnings, as the significant share is taken by brand owners, which are involved in the designing and marketing of the branded products. One Ethiopian firm that has domesticated some of the design activities is fetching an export price of US$ 28, which is significantly different from the average of US$ 11. Other companies could

draw lessons from this company. Beyond this, Ethiopia should consider other export models and markets. For example the South African retail chains have opened shops in many African countries; this has assisted them to earn favourable profit margins. Consideration of other markets in Africa could also be a viable option for Ethiopia to export at higher prices. An UNCTAD study (2013) demonstrated that intra trade rewards better in the leather and textile trade than international trade. Table 9 summarizes the market share, average prices in Ethiopia, the rest of the world and selected African countries for man's formal footwear.

Table 9: Domestic and Exports Markets and Price Differentials

Market	Market Share (%)	Average Prices	Prevailing Prices in Africa
Domestic	**80-90**	**Birr (700-800) (US$33-38**	
External	**10-20**	**11-15**	**25- 80**
Variance		**22 -32**	

Ethiopian Exports to Europe and USA attract preferential rates (0%). In the COMESA region Ethiopia has the potential of entering at 0% duty once it implements the COMESA FTA. Footwear from Ethiopia currently attracts duty levels, which are summarized in Table 10.

Table 10: Footwear Imports Tariffs in Selected Countries

Country	MFN Rate (%)	COMESA Rate for Non FTA Member States
Kenya	25	2.5
Uganda	25	22.5
Zambia	25	22.5
Zimbabwe	40% + US$1 per pair	90% 0f (40% + US$1 per pair)
South Africa	30	
Nigeria	20	

Source: Market Access ITC

The tariff levels stated in Table 10 indicates that the most accessible market is Kenya, with a duty rate of 2.50%, for non - COMESA FTA members. In addition the footwear market in Kenya is large as reflected by footwear imports of US$ 289 million from the rest of the World in 2015. Kenya is a potential market, with a very good communication link via Ethiopian and Kenyan Airlines and also by road. There is a need to explore this market; currently, footwear manufactured in Kenya of lower quality than those made in Ethiopia are retailing for US$ 40 to US$ 70.

2.2.3 Comparative Analysis on Competitiveness

Ethiopia's vision is to become a global player in the production and export of leather, footwear and leather goods. It is, therefore, important for her to understand her current competitiveness position vis-a-vis other countries both in Africa and the rest of the world. In this section Ethiopia's Global competitiveness was analyzed using Export Competitiveness Index for products of Chapter 41 (raw hides, skins, wet blue, crust and finished leather) and Chapter 64 (footwear).

2.2.3.1 Articles of Chapter 41[9]

Ethiopia's export earnings under Chapter 41 of HS was estimated at US$ 97,462 million, taking position seven in the 8 listed countries, just above Tunisia. Kenya and Egypt displayed far superior export earnings, than Ethiopia, however, it is important to note that exports from Kenya are 95% made up of wet blue, whereas those of Egypt is mainly finished leather. Ethiopia's importation of articles of chapter 41 has risen rapidly than the rest of the countries, as it stood at 108, against export growth of 10%. For details see Table 11.

Table 11: Comparative Analysis Export Competitiveness for Articles of Chapter 41

	US$'000s			Growth in Value pa (%)		
Countries	**Exports**	**Imports**	**Net Trade**	**Exports**	**Imports**	**Net Trade (X-M)/(X+M) * 100**
Ethiopia	97,462	22,708	74,754	10	108	62.2
Kenya	136,378	4,291	132,087	19	-1	93.9
Egypt	195,109	8,952	186,157	5	-23	91.2
Turkey	226,683	506,547	-279,864	18	2	-38.2
India	1,363,722	711,985	651,737	15	10	31.4
China	563,337	8,261,089	-7,697,752	8	9	-87.2
Italy	5,563,790	4,912,386	651,404	5	10	6.2
Tunisia	35,897	229,473	-193,576	-1	-4	-73

Source: ITC Trade Competitiveness Index

2.2.3.2 Articles of Chapter 6410

The Ethiopian footwear market is composed of both locally manufactured and imported products. Ethiopia performed much better than Kenya and Egypt in the export of footwear, however, in Africa, it lagged behind Tunisia, which exported footwear worth US$ 692 million, as opposed to US$34 million by Ethiopia. Ethiopia's importation of footwear has been growing at a rate of 35%, with estimated annual import bill of US$ 118 million, which translates to 10% of total COMESA import bill. Details are summarized in Table 12.

Table 12: Comparative Analysis of Export Competitiveness for Articles of Chapter 64

	US$'000s			Growth in Value pa (%)		
Countries	**Exports**	**Imports**	**Net Trade**	**Exports**	**Imports**	**Net Trade (X-M)/(X+M) * 100**
Ethiopia	33,877	118,254	-84,377	44	35	-55.5
Kenya	20,756	201,473	-180,717	6	22	-81.3
Egypt	12,082	101,858	-89,776	-9	-6	-78.8
Turkey	719,482	953,881	-234,399	16	10	-14
India	2,990,710	432,043	2,558,667	16	14	74.8
China	56,248,702	2,279,277	53,969,425	12	19	92.2
Italy	12,196,799	6,485,927	5,710,872	6	3	30.6
Tunisia	692,431	179,089	513,342	-2	1	58.9

Source: ITC Trade Competitiveness Index

[9] Raw hides and skins, semi processed and finished leather
[10] Footwear and parts thereof

Based on an average price of US$ 11, it implies that Ethiopia exported an estimated 2.9 million pairs of footwear. Assuming it had exported to other African countries at an average price of US$ 25, Ethiopia, could have earned approximately US$ 72 million.

2.2.3.3 Competition with Low Cost Shoe Imports

The footwear market in Ethiopia is growing rapidly, as reflected by rising imports. The footwear per capita for Africa is estimated at 0.85 pairs per person per year. Assuming the same, Ethiopia's footwear market is estimated at 81.6 million pairs per annum. Imports were mainly dominated by footwear from China in the period 2004 to 2015 that accounted for 79.1%. The significance of imports from China has declined from 89.3% in 2012 to 46.1 % in 2015. The Ethiopian footwear trade balance was negative and expanded from US$ 19.7 million in 2004 to US$ 129 million 2015. Importation of second hand footwear is banned, however, these products were observed in markets in Addis and other towns, this implies the imports bill is higher than the recorded one. Figure 4, illustrates the trend in imports, exports and the trade balance of footwear.

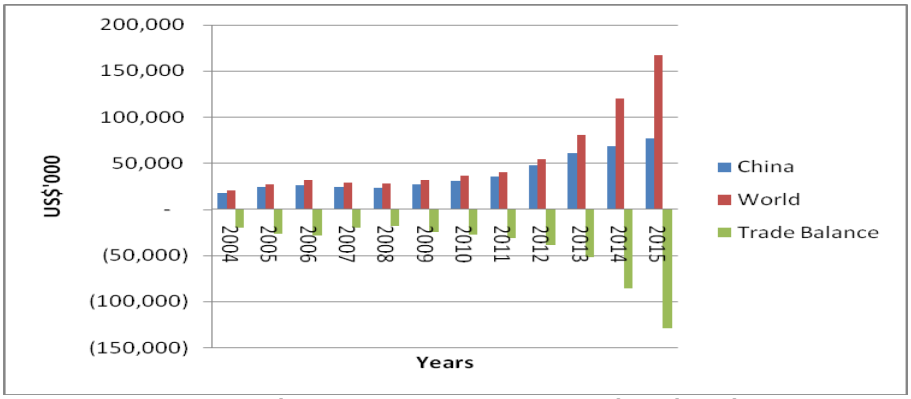


Figure 4: Footwear Imports and Trade Balance

Source: ITC Trade Map

2.3 Factors Constraining the Growth of the Sector

The performance of the sector lagged behind the targets that were set under GTP I. A number of studies have identified the following as constraints, retarding the growth of the sector: inadequate capacity in resource optimization and productivity improvement; shortages of quality hides and skins; shortage of finished leather; dependence on imported accessories and other intermediate inputs; inadequate managerial expertise and skilled labour; difficult access to export markets and low profit margins; design weaknesses; inadequate access to suitable finance; weak physical infrastructure and customs delays and high mobility because of low wages. These constraints were confirmed during a Stakeholder Consultation Workshop that was held on 22nd April 2016. However, no study to date has quantified the significance of any of the constraints with regard to the underperformance of the sector; consequently, it is not possible to rank them. Detailed discussions of those constraints and their impact on the industry are discussed in detail in the next subsections.

2.3.1 Inadequate Capacity in Resource Optimization

Resource optimization or productivity improvement is at the core of boosting competiveness through unit cost reduction. Ethiopia, compared to many other African countries, is in a better position in terms of leather sector development. However, there is no evidence of the implementation of resource optimisation and productivity improvement in the sector as reflected by the productivity of a 2.5 to 3 pairs of footwear per day. For example, only one enterprise out of the fifteen that were interviewed during the design process of this strategy reported that they were working on productivity improvement. By inference this reflects limited technical industrial managerial capacities. Productivity improvement, thus, should be a topical issue in the industry to address the underlying sector development initiatives that are pertinent in driving the country's desire to be a global player.

2.3.2 Inadequate Quality Assurance System

In order to assure a high quality of the final products, special attention must be taken and dedicated measures are required at every step of production in enterprises in the various segments of the value chain, starting with slaughter houses to the production of finished products. In few test markets, globally, some of the Ethiopian tanneries have failed to deliver leather of a quality that is consistent with the agreed specifications, which is a reflection of an inadequate quality assurance system. A summary of concerns, which were raised by Value Chain Actors with regard to quality of products at various stages of the value chain are summarized in Table 13.

Table 13: Characterization of Quality Issues across the Value Chain

Issues Raised by Various Agents	Comments raised by buyers
Slaughter houses against farmers	• Pre-slaughter defects caused by diseases;
Collectors against Slaughter houses	• Poor shape; • Gouges and other cuts
Collectors against Tanners	• Low prices offered by tanners; • Delayed payments by tanners of more than 60 days
Tanners against Slaughter Houses and Collectors	• Poor preservation; • Dirty
Footwear and Leather goods Manufacturers against Tanners	• Low cut value due to cuts and gouges inflicted during flaying; • Colour and thickness inconsistence; • Failure to meet delivery deadlines
Consumers against footwear makers	• Limited style; • Lower comfort when compared with imports; • Durability of soles; • Poor workmanship; Failure to meet delivery deadlines

2.3.3 Inadequate Technology

Technological knowhow is a combination of the machines, system and human capacity. In terms of machinery and equipment local tanneries and some of the footwear factories have similar or identical equipment with those used in Italy, Turkey and India. However, in many local

factories there is a complete absence of a systematic approach on managing the production process and human capacity to ensure that the machinery perform efficiently and effectively. Deficiencies in process management, information handling, work task and workplace design and motivation are important causes of poor quality. The inadequacy of technology undermines productivity and quality improvement. The need for technology sophistication is positively correlated with increasing value addition; for example, the leather industry performance prior to the restriction on the export of wet blue and crust was favorable. The retardation being experienced in recent years could be a function of technology gaps with regard to the production of high value added products, such as finished leather, footwear and leather garments.

2.3.4 Shortage of quality raw hides and skins

Raw hides and skins are the basic input in the production of finished leather and ultimately in the production of footwear with leather uppers, leather goods and garments. According to global standards, hides and skins contribute approximately 60-70% in the production of finished leather. However in the Ethiopian context, given the low hides and skins prices, their contribution to the production cost of finished leather is approximately 45% and chemicals take 43%.

Ethiopia has the potential to produce the quantity of bovine hides and skins required to meet the installed soaking capacity; however, the output of sheep/goats skins is below the installed capacity. The details are presented in table 14.The shortage of hides and skins is being worsened because of low quality associated with size, pre, peri and post slaughter defects. There is a high level of backyard slaughtering in Ethiopia, including in major towns. Quality enforcement in flaying and collection of hides and skins produced in backyard is expensive, thus measures should be implemented to promote centralized slaughtering, especially in urban areas.

Table 14: Hides and Skin Production and Capacity Utilization

	Hides and Skins Pieces	Soaking Capacity	Capacity Utilization in 2015
Hides and Skins	4,200,000	2,550,800	2,026,288
Goats and Sheep Skins	17,500,300	45,466,400	18,937,238

Whereas the shortage of quality hides and skins contributed to low capacity utilization, however, other factors such as weak supply chain management, scarcity of working capacity, weak market demand of finished leather and cash flow problems also played a significant role.

2.3.5 Shortage of Quality Finished Leather

The matter concerning the shortage of finished leather relate mainly to the shortage of quality leather. Footwear and leather goods manufacturers focusing on high end and export market have reported that the quality of finished leather is low. The shortage of quality leather has impacted negatively on the cut value, consequently raising the unit costs of production. Tanners exported 70-80% of finished leather because of relatively higher returns in export markets and also to earn foreign currency that is needed for importing chemicals and other inputs. In addition to this export guarantees them duty draw back refund, hence improving their

gross margins. This scenario has partially contributed to the lower capacity utilization. See details in Table 15.

Table 15: Capacity Utilization in Large Footwear Factories

Category	Installed Capacity	Capacity Utilization	(%) Capacity Utilization
Footwear (pairs)	10,892,000.00	7,374,920.00	64.13

Source: LIDI

2.3.6 Long Lead Time of Inputs

Most of the chemicals that are used in tanning are imported, and they contribute approximately 43% to the total cost of production of finished leather. Importation logistics and availability of foreign currency play a significant role in ensuring the efficiency in the production of leather. In the production of footwear and leather goods, accessories and other intermediate inputs contribute approximately 10-15%s into the production cost, hence, it is important that they are available at competitive prices and on time. Due to long lead importation periods, most enterprises are forced to keep large stock. Holding components on stock is difficult on account of differences in the demand of exporters and lack of working capital. The sourcing of inputs like chemicals from abroad is also found to be problematic due to long lead time, unavailability of chemicals locally, bureaucratic procedures of the custom office, etc.

2.3.7 Inadequate Managerial and Human Resource Capacity

Management is the organization and coordination of the activities of a business in order to achieve defined objectives. Thus, it consists of the interlocking functions of creating corporate policy and organizing, planning and controlling and directing an organization's resources in order to achieve the objectives of that policy. There is a general consensus among the stakeholders that limited management capability is impacting negatively on the performance of the leather sector ranging from production, procurement, and supply chain and marketing management.

Human capital is very important in leather tanning, footwear and leather goods manufacturing. Although tanning is capital intensive, high knowledge of technical knowhow is essential especially in the production of finished leather; at operative level, it is critical that workers are well trained to use the machines. In order to understand the breadth and depth of this problem it is important to break down the specific capabilities and skills required at the various levels of the leather value chain. The capabilities required at every stage of the leather value chain is listed and the status of adequacy or inadequacy in Ethiopia. The weak productivity capacity reflects weak managerial capacities. See details in Table 16.

Table 16: Characterization of Human Resources Inadequacy

Segment	Top Leadership	Middle Management (Technical, Finance and Marketing)	Supervision	Operations
Slaughter Facilities	Very weak	Most Key functional managerial positions are occupied with	Weak	Weak
Hides and Skins	Very weak		Weak	Weak

Segment	Top Leadership	Middle Management (Technical, Finance and Marketing)	Supervision	Operations
Merchants		personnel with limited qualifications and experience OR they are not manned at all.		
Tanning			Fair	Fair
Wet Blue	Good		Good	Good
Crust	Good		Good	Good
Finished leather	Very weak		Weak	Weak
Footwear	Very weak		Weak	Weak
Leather Goods	Very weak		Weak	Weak

The illustration in Table 16, demonstrates that managerial capacity is very weak across the value chain; however, its impact on the lower value of the chain was not visible before 2012, as the sector was mainly exporting crust. The managerial weakness was exposed when a 150% export tax on crust was proclaimed in 2012. The management skills required in the manufacturing and exporting of finished leather are different from manufacturing and exporting of crust, which is a commodity whose usage is not narrowly defined. The usage of finished leather is very narrowly defined and is associated with strict specifications and short marketing season. Currently, in broad terms, the Ethiopia industry cannot match dynamics associated with production and marketing of finished leather and other value added products.

In addition to the above, the production cycle has increased, hence, the cash flow cycle has also changed; as a result, the financial management skills and the nature of financial instruments required to finance a longer production cycle have also changed. These are fundamental issues that should be addressed in order to enhance the performance of the industry in the export market.

2.3.8 Market Conditions and Capabilities

Market conditions entail the situation prevailing in the market with regard to dynamics, prices, performance, market power or concentration, competition and the level of sophistication among others. There should be a match between the level of sophistication of markets and managerial capacities. The local leather industries managerial capacities versus the prevailing market conditions at national, regional and international markets is summarized in Table 17. There is a general consensus that management capacities are lower across the value chain. In addition, the expected market and production of value products orientation, in line with the Government growth path requires a high level of sophistication in management skills.

Table 17: Market Conditions and Enterprise Capabilities

Markets	Commodity	Conditions	Status in Management Capabilities
Domestic	Raw hides and skins	• The existence of many brokers along the chain; • High prices fluctuations; • 20% of the hides and skins produced are air dried are not being purchased • Inadequate information dissemination; • Total number of slaughter levels not known; • Long lead payment period by tanners; • Very competitive sector in face of organized tanneries • Export tax of 150%	• Low levels of capability to collaborate with highly organized tanneries; • Difficult to make optimal business decisions because of inadequate information; • Poor managerial capacities
	Finished leather	• Low capacity utilization because of shortage of quality hides and skins and inadequate finance; • Shortage of finished leather and also quality issues; • Erratic supplies of quality leather • Highly organized under ELIA • Some tanneries vertically integrated with footwear and leather goods factories	• Capabilities levels commensurate with the market conditions in the domestic market; • Some of the tanneries are failing to secure finance because of limited capacity to develop bankable proposals.
	Footwear	• Many footwear manufacturers ranging from MSMEs to large companies; • Shortage of quality leather; • Some enterprises are vertically integrated with tanneries • High competition from imported footwear; • Intense competition from informal micro enterprises, whose products are lowly priced because they don't charge VAT	• MSMEs have limited capabilities to make rational decision given the competition in the industry; • Vertically integrated enterprises have an upper hand in the procurement of leather • Large companies have fairly high levels of capabilities to make decisions; • Stiff competition from imported footwear
	Leather goods	• Many leather goods manufacturers ranging from MSMEs to large companies; • The large number of enterprises increases competition in the procurement of leather and other accessories; • Shortage of quality leather; • Some enterprises are vertically integrated with tanneries • High competition from imported footwear	• MSMEs have limited capabilities to make rational decision given the competition in the industry; • Vertically integrated enterprises have an upper hand in the procurement of leather • Large companies have fairly high levels of capabilities to make decisions;
Regional[11]	Raw hides and skins	• High prices of raw hides and skins in comparison to Ethiopia; • Quality of bovine hides and skins from some of the regional countries such as Uganda are of superior quality	Export tax of 150% deters the export of raw hides and skins
	Finished leather	• Most enterprise manufacturing footwear and leather goods are small and disorganized • High margins	• Limited knowledge of the regional market; • Weak market development capabilities; • Limited market intelligence about the regional

[11] Refers to all African countries

Markets	Commodity	Conditions	Status in Management Capabilities
			market
	Footwear	• The COMESA regional market total import bill is US$ 1.1 billion; • Growing market of quality man formal shoes, prices range from US$ 35 to US$ 150; • MFN duty levels of 25% and above; • Ethiopia not yet implemented the COMESA/FTA • High margins	• Limited market intelligence about the regional market • Weak market development capabilities; • Limited knowledge of the regional market
	Leather goods	• Market for leather jackets and bags growing in the region;	• Limited market intelligence about the regional market • Weak market development capabilities; • Limited knowledge of the regional market
International	Finished leather	• Extremely sophisticated market dominated by China, Italy, India, Turkey and Pakistan; • Margins very thin; • High quality and timely delivery times	• Ethiopia tanneries lack the prerequisite skins to participate effectively in the global market; • Limited knowledge of preparing designs ahead of fashion cycles; • Weak market development capabilities; • Limited market intelligence about the regional market
	Footwear	• Extremely sophisticated market dominated by China, Italy, India, Turkey and Pakistan; • Margins very thin; • High quality and timely delivery times; • Very short fashion seasons	
	Leather goods	• Extremely sophisticated market dominated by China, Italy, India, Turkey and Pakistan; • Margins very thin; • High quality and timely delivery times • Very short fashion seasons	

2.3.9 Inadequate Access to Suitable Finance

Finance is important for business operations; however, there are various forms of finance instruments, which are suitable for different situations and operations. There is a need to dig deeper and, therefore, understand the specific financial instruments, which are in short supply; consequently, contributing to low capacity utilization and low export penetration currently associated with the leather sector in Ethiopia. The leather sector is unique from other manufacturing chains; hence, there is a need to design financial instruments, which suit its production cycles. The issue at hand is not only the shortage of credit lines, however some enterprises in the leather sector have limited managerial capacity to develop bankable loan applications. In addition, some of the enterprises' capacity to borrow is constrained, as they are still serving loans. This is an area which should not be generalized; it is, thus, recommended that the interventions to address financial constraints must be informed through a diagnostic study of the financial positions of the various enterprises in the financial sector *vis-à-vis* the financial instruments available in the Ethiopian financial sector.

2.3.10 Lower Wages and Labour Mobility

The average wage for shop floor workers range from US$ 35 (Birr 735) to US$ 50 (Birr 1,050). It is estimated that, on average labour costs account for 5% in the leather industry. This is a source of competitiveness for Ethiopia against other countries where wages are higher; however it was reported that there is high labour turnover because competition mainly from the construction sector. The high labour turnover is detrimental to skills development and productivity growth. The loss in skills cannot be compensated with lower wages, as poor productivity is at the core of the lower performance of the sector. Training is costly in terms of time and financial resources. Rapid staff turnover undermines team building, trust and belonging. These are essential attributes on quality improvement and laborer productivity.

2.4 Institutional and Policy Support

The Government is supporting the leather industry using various instruments, for instance: human resource development, institutional and fiscal support. A summary of some of the import institutions and policies are discussed in brief in the next sub sections.

2.4.1 Institutional Support

There are many institutions in Ethiopia that offer generic support to many industrial sectors, including the leather sector. These range from technical, training and quality improvement institutions. Others support the development of SMEs and cooperatives across various sectors including leather.

Leather Industries Development Institute (LIDI), is a Government specialized Institute that is mandated with the development of leather. Other sectors such as textiles and metals have similar institutional support. Similar institutions across the globe, especially in East Asia, were instrumental in revolutionizing the industrial development process. The leather industry in Ethiopia is associated with inadequate managerial and technical capacities in the area of engineering, procurement, production; marketing and financial management. These pose immense challenges in the Government's efforts to move the industry forward. What role should

LIDI play to catalyze the industry to transform itself in order to operate as a modern industry, which recognizes and appreciates the importance of modern management systems as a prerequisite of enhancing productivity, competiveness, quality and responsiveness to global dynamics? This will depend on the Government's development paradigm.

Free market economic thinking took centre stage in the global discourse in the past two decades or so, however, there is emerging consensus that the State or State support institutions are necessary in catalyzing the industrialization process because market failures are rampant in many low income countries, which prevent or hinder private sector growth. Globalization has also brought many challenges and opportunities, however, enterprises in developing countries have limited skills, knowledge and systems to deal with the former and capture the later. Given the scenario, LIDI should be well equipped to facilitate the industry to respond to challenges and opportunities that continue to emerge with globalization.

2.4.2 Policy

Ethiopia's Balance of Trade (BOT) was negative for the past ten years, mainly because of imports to support infrastructure development and industrial capitalization among other things. In addition to this, Ethiopia is also importing a whole range of articles including vehicles, consumer goods, such as electrical, processed foods, articles of apparel and footwear. In order to reduce the negative trade balance and also generate adequate foreign currency, the Government has put in place incentives to encourage export growth.

Export trade incentive schemes in Ethiopia consist of fiscal and financial incentives, which include Duty Drawback (DDB), Voucher (VC), Manufacturing under Bonded Warehousing (MBW) and Export Credit Guarantee schemes (ECG). The export credit guarantee has proved to be the most important incentive to exporters as evidenced by the magnitude of loan extended via this scheme. From the fiscal incentives, over 90% is provided through the VC while the remaining is divided between DDB and MBW. The ECG scheme was introduced with the aim to improve the export capacity of exporters by providing pre-shipment and post- shipment financing. It was first introduced in July 1999 but it was not functional until 2003 after the scheme was re- established through NBE directive no.SBB/33/2002. The scheme operates in such a manner that the National Bank of Ethiopia guarantees loans secured by exporters from banks. Despite its success it has been reported that, at times, the delays in reimbursement has impacted negatively on the cash flow of enterprises. In general, delays in reimbursement is a function of both parties, namely the enterprises and the administration authority.

2.5 Emerging Issues

The following are the emerging issues from the situational analysis of the industry:

- The leather value chain is represented at every segment of the value chain, however, there are vertical and horizontal collaboration constraints;
- Low hides and skins prices impacting negatively on the viability of Hides and Skins, as other costs for example transport, rent, wages and other overheads, this leads to a decline on profit margins;
- Collectors; this problem has been further compounded by delayed payment by tanners;
- Low capacity utilization across the value chain was undermining the viability of the whole industry;

- The export performance was below GTP I targets;
- Low international footwear prices were discouraging exports;
- The industry is experiencing lower export competitiveness in comparison to selected countries;
- Rising imports of footwear was building up competition in the domestic market;
- The growth of the sector is constrained by numerous internal and external factors ranging from managerial inadequacies to limited access to finance.

CHAPTER III: INTERNAL AND EXTERNAL ANALYSIS

The bedrock of any successful strategic plan is a holistic consideration of strengths, weaknesses and limitations of the target sector or organization. External and internal analyses of a sector identify the strategic issues that should be addressed in order to stimulate the performance of the sector. SWOT and PESTEL Analyses were used to examine the industry.

3.1 SWOT Analysis

The specific objective of SWOT analysis is to determine the best way for a sector to use its strengths to exploit opportunities, while also identifying both the sector's weaknesses and strengths against perceived threats. Thus, the strategic intervention should seek to further strengthen the **S**trengths, deal with the **W**eaknesses, explore on the **O**pportunities and addressthe **T**hreats. The SWOT analysis is summarized below in Table 18 and 19

Table 18: Strengths and Weakness

Stages	Strengths	Weaknesses
Hides and Skins Production	• Ethiopia has a very large livestock base; • New Livestock Master Plan set to boost livestock productivity; • Existence of associations such as ELIA and Hides and Skins Association.	• Absence of a structured system to support the production of quality hides and skins; • Weak or inadequate extension support; • Poor handling of live animals; • Weak animal husbandry system; • Poor slaughter facilities; • Poor flaying and conservation techniques; • Poor quality of hides and skins; • High frequency of backyard slaughtering.
Tanneries	• Relatively available raw hides and skins; • Competitively priced hides and skins; • Available Production Capacity to produce up to finished leather; • A large pool of trainable work force.	• Inadequate managerial capacity across all the key divisions at enterprise level (procurement, production, marketing and finance); • Low productivity; • Inadequate capacity and skills to produce variety and high quality finished leather; • Inadequate technology, technical and production management skills; • Limited capacity to produce in line with global fashion dynamics and trends; • Limited collaboration with upstream and downstream chain players; • Limited interaction with the FDI Enterprises; • Failure to attract university graduates.
Leather footwear, goods and garments	• Large pool of trainable human resources; • Relatively adequate availability of finished leather in comparison to other countries in Africa.	• Inadequate managerial capacity across all the key divisions at enterprise level (procurement, production, marketing and finance); • Inadequate machinery and equipment; • Limited availability of quality finished leather and accessories; • High cost of finance; • Absence or lack of qualified footwear and leather goods workers; • Limited interaction with the FDI Enterprise; • Failure to attract university graduates; • Poor collaboration among enterprises (absence of an association of footwear and leather goods); • Lack of capacity to perform in line with fast fashion dynamics.

Stages	Strengths	Weaknesses
Support Institutions	• Well equipped technical institution (LIDI); • Increased collaboration with Academic Institutions.	• Inadequate managerial capacity across all the key divisions at enterprise level; • Limited support and interaction with Academia.

Table 19: Opportunities and Threats

Stages	Opportunities	Threats
Hides and Skins Production	• Increasing investment in modern slaughter facilities; • Growing demand for meat, increasing the slaughter rates; • Increasing number of tanneries being established.	• The low domestic hides and skins price may encourage exports of raw hides given an ad valorem export tax, whose deterrence is dependent on the prevailing price; • Quality of hides and skins continues to deteriorate; • Exports of live animals.
Tanneries	• Growing demand of finished leather globally • Government interest to develop a sector specific policy; • Rising number in the establishment of modern tanneries.	• Low capacity utilization, undermining profitability; • Increased competition from synthetic and imported second hand products.
Leather footwear, goods and garments	• Increased interest by Government to support the development of Clusters; • Growing domestic and regional demand for finished leather; • A big and growing market deficit for footwear; • Potential Government procurement for military, policies and other Government institutions.	• Intense competition from cheaper imports from Far East.
Support Institutions	• Renewed interest by Academic institutions to work with the sector.	

3.2 External Analysis (PESTEL)

The Political, Economic, Social, Technological, Environmental and Legal (PESTEL) analysis posits how the governance, economic, social and political, environmental and technological dynamics prevailing has a bearing on the performance of the Ethiopian Leather Value Chain. The Ethiopian Leather Value Chain PESTEL is summarized in Table 20.

Table 20: PESTEL Analysis

PESTEL Dimensions	Impact on the Sector
Political	
• Government commitment; • Enabling business environment; • Improved political stability.	• Improve domestic and foreign investment in the sector.
• GTP growth targets.	• More work has to be done for the sector to meet the targets set in GTP II.
• Vision to grow Ethiopia to a Lower Middle Income country by 2025.	• The sector is expected to contribute to this target.
Economic	
• Rapid economic growth in Ethiopia; • Increased Income per capita; • FDI growth.	• Increased demand footwear and other leather products; • Increased meat consumption, consequently the production of hides and skins.

PESTEL Dimensions	Impact on the Sector
• Increased competition from imports	• Decline domestic sales of footwear and leather products; • Decline of production in the country in face of external competition.
• Implementation of bilateral and multilateral trade agreements, e.g AGOA, COMESA FTA.	• Opportunities for the Ethiopian industry to export to the region duty free.
• Shortage of foreign currency.	• Impact negatively on the growth of the sector, with regard to capitalization and importation of chemicals and accessories.
• Limited access to finance.	• Slow growth of the industry, continuous decline in capacity utilization; • Increase in the cost of doing business.
Social	
• Population growth; • Improved living standards.	• Increased demand of footwear and other leather goods; • Improved pool of labour force.
• Improved literacy rate; • Increased number of higher education graduates.	• Improve supply of trainable labour force
Technological	
• Rapid expansion in productivity in China and other countries; • Rapid growth in environmental friendly technologies.	• Decline in the consumption of locally and produced footwear and leather goods; • Decline in demand of locally produced leather products globally, if the region fails to upgrade new technologies; • Adaption of absolute technology.
Environment	
• Increasing environmental demands such as REACH; • Climate Change; • Waste disposal laws; • Environmental Protection laws.	• Leather products, which fail to meet the REACH directive maybe barred from entering Europe; • Increased investment cost for effluent management.
• Establishment of Common Effluent Treatment Plants.	• Improved environment management, which will boost the image of the Ethiopian leather industry; • Cost reduction in effluent management; • Incur the cost of relocation of the industry.
Legal	
Health and safety regulations.	• Failure to meet these may impact negatively on the Ethiopian Industry globally.

3.3 Stakeholder Analysis

A Stakeholder is anybody who can affect or is affected by the development of the leather value chain. These stakeholders' involvement is critical to the successful transformation of the leather sector and to contribute effectively to the development of the country. Their inputs and requirements vary with regard to type and importance, however, holistically, their inputs are necessary. The development and implementation of the industry development plan requires the participation of stakeholders in the planning and execution process. Thus, it is necessary to identify the concerned stakeholders and secure their involvement in the processes. Not only the identification of stakeholders is important but also determining their importance and influence is needed. It is also necessary to identify the interests and expectations of these stakeholders and later on develop appropriate strategy to harness the potentials and synergy from the stakeholders' collaborations. Based on the SWOT and PESTEL analyses the major stakeholders and collaborators identified are prioritized as high, medium and low degree of importance. On the basis of the above framework, leather value chains Stakeholders were identified and their strengths/importance assessed as presented in Table 21. The following key was used: L= low influence (score = 1); M = medium influence (score = 2); H = high influence (score = 3).

Table 21: Stakeholders Analysis

No.	Stakeholder	What are the services the Stakeholders expected to deliver	What do Stakeholders Expect from the Leather Industry in return	Likely reaction and /or impact if expectations are not met		Degree of Stakeholder Influence on the Leather Value						Overall Degree of Importance
				Stakeholders	Leather Industry	Power			Support			
						L	M	H	L	M	H	
1	LIDI	Technical support: capacity building, technical advice, testing, R & D, marketing intelligence	Deliver competitively in order to meet the targets set in GTP	Disconnect a link and provision of supporting services	• Lack of trust and confidence on the services • Be reluctant to adopt new technology and practices • No collaboration			X			X	Very High
2	MoI	Policy support, resources mobilization	Deliver competitively in order to meet the targets set in GTP	Disconnect a link and provision of supporting services	• Lack of trust and confidence • No collaboration • Low capacity utilization			X			X	Very High
3	MoLF	Policy support, increase livestock production and reduction on pre slaughter defects	• Absorb all hides and skins produced meeting the expected quality • Pay fair price •	• Less livestock extension activity results on less production & productivity, low quality H & S •	• Purchase H & S in small quantity • Pay low price			X			X	" "
4	ERCA	Policy support, Export Incentives and efficient custom services, Prevention of illegal trade	Increase Investment and Foreign earning	Reject Incentive provisions, Disconnect special custom service Programs	• Reluctance to invest • Reduce production and export		X				X	
5	NBE,CBE, EDB	Policy support, Export permit, Supply of credit and Foreign Currency.	Increase Investment and Foreign Currency earning	• Reduce the supply of credit • Reduce the supply of Foreign Currency	Reduce production and export		X				X	
6	MOFED	Policy support, Budget allocation	Increase Investment, production and Economic growth	Reject Incentive provisions, Reduce the allocated budget	• Low investment activities • Reduce contribution to GDP and economic growth		X			X		
7	ESLSE	Policy support, efficient Shipping and transport	Increase Investment and Foreign earning	Reject Incentive provisions, Disconnect special transport &	Reduce production and export		X			X		

		services		logistics service Programs								
8	FEMSEDA	Organizing Enterprises, Construction of Clusters, Machinery Lease service	• Increase number of enterprises • Increase interaction of supply, production and marketing. • Effective support activities by concerned stake holders	• Less effort to organize enterprises • Terminate cluster formation • Weak support services	• Reduced number of enterprises • Poor interaction and linkage		X			X		

Key H + H = Very high, H + M = High, M+M = Moderate, M+L = below model, L + L = Insignificant

3.4 Emerging Priority Intervention Areas

The strategic issues immerging from the SWOT, PESTEL and Stakeholders analyses are as follows:

- The sector is facing numerous challenges and it failed to meet export targets under GTPI;
- Government is committed to support the development the leather sector, as reflected by the continuous funding of LIDI and engaging many Development Partners;
- There is limited collaboration among stakeholders at various nodes of the value chain: slaughter houses, hides and skins merchants, tanners, footwear and leather goods manufacturers associations;
- Rapid increase in imports of footwear and a widening trade balance;
- Low capacity utilization across all the segments of the value addition segment of the leather value chain is raising Average Fixed Costs of Production
- Limited technological knowhow;
- Low labour productivity;
- MSMEs in the production of footwear and leather goods are facing many challenges;
- Inadequate environment management systems across the value chain;
- Inadequate market development capacity in the domestic, regional and international markets;
- Limited usage of e-commerce and communications systems;
- Weak sector associations.

CHAPTER IV: STRATEGIC ISSUES IDENTIFICATION

Chapter one to three laid a foundation for the identification of important strategic interventions that should be implemented by the Government, Private Sector, Support Institutions and other support agencies/organizations. Addressing these strategic interventions areas could stimulate and catalyze the performance of the Leather Sector in line with the targets that were set under GTP II.

4.1 Strategic Issues and Rationale

Ethiopia is one of the fastest growing economies in Africa and is well endowed with animal resources. The growing population is raising significant demands for jobs, services and improved welfare support system. The Government has responded to this by setting high targets to transform the economy from a Less Developing Country (LDC) into a Lower Middle Income country by 2025. The Leather Sector is expected to be among some of the leading sectors to contribute significantly to the growth. According to GTP II, leather output should increase from 301 million square feet in 2014/15 to 555.1 million square feet in 2019/20. The output of footwear and gloves is projected to grow more than fivefold in the same period, at the back of foreseen productivity, capacity utilization and employment creation improvement. The estimated performance indicators are summarized in Table 22

Table 22: Production, Capacity Utilization, Productivity and Job Creation Targets 2015 to 2019/20

No.	Description	2014/15 base	2015/16	2016/17	2017/18	2018/19	2019/20
1	**Current Production Capacity**						
	Finished leather (million square feet)	301	313.9	332.9	358.1	395.2	555.1
	Shoes (pair in millions)	13.8	17.9	24.7	35.8	52.3	75.2
	Glove (pair in millions)	2.55	3.52	4.86	6.71	9.26	12.78
	Leather goods pieces(millions)	1.23	1.43	1.68	1.97	2.33	2.75
	Leather garments pieces (millions)	0.33	0.35	0.37	0.39	0.40	0.43
2	**Capacity Utilization (%)**						
	Finished leather	62	71	81	86	90	91
	Shoe	62	68	75	79	84	90
	Glove	80	80	80	84	88	90
	Leather goods	50	57	65	75	80	82
	Leather garments	12	21	38	57	63	70
3	**Productivity**						
	Shoe (pair/men/day)	2.75	3.64	4.2	5.01	5.84	6.96
	Glove (pair/men/day)	4	4.71	5.94	6.58	8.01	9.93
4	**Job creation**	12,000	48,000	52,000	66,000	76,000	94,000

Source: GTP II. (Some of the descriptions in column 2 have been modified)

The output amounts illustrated in Table 24 above are expected to generate revenue stated in Table 25; the sector is expected to grow from US$ 1.33 billion to US$ 8.4 billion between 2014/15 and 2019/20, which translates to more than 6 fold growth. Exports are estimated to reach US$ 800 million by 2020, which equivalent to 10% of total output value, implying 90% of outputs will be channeled into the domestic market. The specific earnings for the leather sector are summarized in Table 23.

Table 23: Gross Outputs, Exports and Employment

No.	Description	2014/15 base	2015/16	2016/17	2017/18	2018/19	2019/20
1	Gross value of production (Billion USD)	1.33	2.58	3.83	5.16	7.08	8.4
2	Exports (Million USD)	160	200	300	400	600	800
	Finished leather		119	154	167	200	214
	Shoes		73	126	196	329	486
	Gloves		8	16	27	52	75
	Leather goods		0.4	3.3	8	15	20
	Leather garments		0.1	0.8	2	4	5
3	New job creation		48,000	52,000	66,000	76,000	94,000

Source: GTP II

The growth of the sector is dependent on addressing key issues that are impacting negatively on its capacity to enhance productivity, competiveness, output and turnover growth. These issues are categorized into external and internal categories, as illustrated in Table 24.

Table 24: Summary of Strategic Issues

Factors External to the Firms
• Weak horizontal linkages among the various nodes along the Value Chain; • Shortage of foreign currency impacting negatively on procuring inputs such as chemicals, accessories and spare parts; • Inadequate availability of suitable finance; • Ethiopia is not fully utilizing the existing bilateral, regional and multilateral trade agreements; • No mechanism in place to promote technological transfer from FDI enterprises to local enterprises; • Export incentives are not performing as to the expectations of the enterprises; • Broader infrastructure constraints; • Inadequate market intelligence in domestic, regional and international markets; • Domestic market offering competitive prices than the export market, especially for footwear and leather goods of export quality.
Factors Internal to the Firms
Slaughter Houses
• Limited modern managerial capacities in all the functional aspects of management (procurement, production, marketing, financial, IT, Human resources); • Informal slaughtering points undermining the collection of hides and skins even in urban areas; • Tanneries are poorly equipped to produce high quality hides and skins; • Limited incentive to improve the quality of hides and skins, as the prevailing price of hides and skins is low; • Limited collaboration with tanneries in order to appreciate their needs; • Inadequate availability of slaughter statistics hence impacting negatively on policy formulation.
Hides and Skins Merchants
• Limited modern managerial capacities in all the functional aspects of management (procurement, production, marketing, financial, IT, Human resources); • Low visibility and weak policy advocacy; • Inadequate analytical capacity to articulate issues impacting the operations of Hides and Skins merchants; • Poor cash flow due to delayed payments by tanners; • Working capital tied up in large stocks of hides and skins, due to low uptake by tanners; • Liquidity challenges impacting the operations of their businesses; • Hides and skins collection statistics gap, whereas tanners claim that there is a shortage, the Hides and Skins Association claim to be holding hides and skins in stock.
Tanners
• Limited modern managerial capacities in all the functional aspects of management (procurement, production, marketing, financial, IT, Human resources); • Limited technical knowhow (technical, managerial and marketing) to compete at the high end of the value chain at global level; • Limited capacity in resource management and optimization (low factor productivity); • Weak supply chain management systems, which contribute to low capacity utilization and failure to meet delivery time lines; • Cash flow challenges impacting negatively on the operations of business; • Limited capacity to match with the fashion dynamics of the global leather industry; • Low wages contributing to high labour turnover; • Quality inconsistency and timely delivery undermining export performance;

• Low investment in both hard and soft skills; • Most enterprises not well manned in areas of management, finance , marketing and human resources development; • Inadequate environment management infrastructure, systems and skills; • Limited utilization of by –products (industrial symbiosis); • Limited Research and Development (R & D) and innovation.
Footwear and Leather Goods Manufacturers
• Limited modern managerial capacities in all the functional aspects of management (procurement, production, marketing, financial, IT, Human resources); • Limited technical knowhow (technical, managerial and marketing) to compete at the high end of the value chain at global level; • Limited capacity in resource management and optimization; • Weak supply chain management systems, which contribute low capacity utilization and failure to meet delivery time lines; • Cash flow challenges impacting negatively on the operations of business; • Shortage of quality finished leather, especially to enterprises which are not integrated with tanneries; • Low wages contributing to high labour turnover; • Low profit margins in the USA and European markets; • Quality inconsistency and failure to meet delivery timelines undermining export performance; • Low investment in both hard and soft skills; • Most enterprises are not well manned in areas of management, finance , marketing and human resources development; • Absence of an association representing the interests of the sub sector.
MSMEs
• Limited modern managerial capacities in all the functional aspects of management (procurement, production, marketing, financial, IT, Human resources) • Currently the Clusters are operating under the Cooperative Proclamation (147/98), however, this is not adequate, there is a need for Cluster Initiative specific legislation; • Limited access to Finance; • Shortage of Machinery and Accessories; • Weak or inadequate Internal Management Framework; • Lack of raw materials; • Limited or no Capacity Building opportunities; • Marketing or Trade Facilitation problems; • Lack of trust/integrity/dishonesty among members; • Limited linkages with public technical support institutions; • Lack of workmanship skills.

The strategic issues that are presented in this strategy directly respond to the issues or challenges, which are presented in Table 24. All these interventions are guided by the overall target that was set under GTP II and beyond.

4.2 Resource Requirement Simulation Model based on GTP II Targets

The simulation model estimates some of the resources required in order to meet the targets set under GTP II. The model is based on the assumptions, which are presented in Annex 1. In order to deliver on the set targets the Private Sector should have access to financial resources to purchase raw hides and skins, chemicals, finished leather and other accessories. The model estimates the following:

- The amount of raw hides and skins ;
- Amount of money required to purchase raw hides and skins, chemicals, finished leather, accessories, labour and others

The total financial requirements by category are summarized in Table 25, however it excludes the production leather goods and garments. Globally it is estimated that a financial injection estimated at US$3.2 will be need to support the production of finished leather, footwear and gloves in the GTP II implementation period of 2015 to 2020. Production of finished leather

requires a global financial input of US$2.8 billion, which translates to 87.4% of the total estimated bill. For details see Table 25.

Table 25: Estimated Financial Inputs to meet some of GTP II Targets (US$)

Product	2014/15 base	2015/16	2016/17	2017/18	2018/19	2019/20	Total	%
Finished leather	375,782,662	391,887,633	415,608,133	447,069,007	493,386,405	693,013,141	2,816,746,981	87.4
Footwear	25,500,000	35,200,000	48,600,000	67,100,000	92,600,000	127,800,000	396,800,000	12.3
Gloves	1,361,114	1,443,606	1,526,097	1,608,589	1,649,835	1,773,573	9,362,814	0.3
Total	**402,643,776**	**428,531,239**	**465,734,230**	**515,777,596**	**587,636,240**	**822,586,714**	3,222,909,795	100

Source: LLPI Computations based on LIDI assumptions and GTP II Targets

4.2.1 Tanning

Raw hides and skins are the primary resource in the production of finished leather, footwear with leather uppers, leather goods and garments. Table 26, presents three levels, with regard to the issues of raw hides and skins that is i) raw hides and skins required to meet GTP II finished leather output, ii) current and projected output of raw hides and skins in Ethiopia, and iii) the potential surplus/deficit of raw hides and skins availability. The emerging strategic issue emerging from the Table 26, is that for Ethiopia to meet the GTP II targets on the production of finished leather, there will be a need to import raw hides and skins, or work on the modalities to improve collection and quality of hides and skins in the domestic market. Chemicals are a major cost centre in the tanning sector, thus it is imperative that mechanisms are put in place to address this challenge, ranging from improved resource optimization process and installation of chrome recovery systems. In addition to this there is a need to undertake a detailed study, which will inform key strategic decisions, such as promoting the setting up of chemicals production plants in Ethiopia, which will also serve the African hinder land.

Table 26: Hides and Skins Requirements to meet GTP II Targets

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Raw hides and skins Requirement (pieces)						
Bovine based on the 24 sq ft conversion rate	4,556,739.64	4,752,028.48	5,039,663.21	5,421,157.69	5,982,802.34	8,403,475.66
Small ruminants based on the 4.5 sq ft conversion rate	42,586,277.49	44,411,403.66	47,099,574.00	50,664,936.77	55,913,943.06	78,537,018.71
Estimated Output of hides and skins in Ethiopia						
Bovine hides	4,200,000.00	4,305,000.00	4,412,625.00	4,522,940.63	4,636,014.14	4,751,914.49
Sheep & Goats skins	20,000,000.00	20,500,000.000	21,012,500.000	21,537,812.500	22,076,257.813	22,628,164.258
Raw hides and skins Gap based on domestic production						
Bovine hides	(356,739.64)	(447,028.48)	(627,038.21)	(898,217.06)	(1,346,788.20)	(3,651,561.16)
Sheep & Goats skins	(22,586,277.49)	(23,911,403.66)	(26,087,074.00)	(29,127,124.27)	(33,837,685.25)	(55,908,854.45)

Source: LLPI Computations based on LIDI assumptions and GTP II Targets

The inputs required to manufacture finished leather include raw hides and skins, chemicals, labour and other inputs. The average contribution of raw hides and skins is 41%, chemicals are 51%, labour is 3% and the balance is other. Based on these ratios, chemicals and raw hides and skins are the major cost centres, estimated at US$157 million and US$189 million in 2015 respectively. This is projected to grow to US$289 million and US$349 million by 2020 in the same order. Total financial requirement for direct inputs, in order to meet the finished leather output set under GTP II, is estimated at US$375 million and US$693 million dollars in 2014/15 and 2019/respectively. Table 27 summarizes the details, by year and category of inputs.

Table 27: Direct Financial Requirements to meet GTP II Finished Leather Outputs Targets (US$)

Estimated Total Financial Requirements by Categories in the Production of Finished Leather						
	2014/15 base	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Hides & Skins	156,790,953	163,510,566	173,407,669	186,534,353	205,859,750	289,151,688
Chemical	189,608,310	197,734,381	209,703,012	225,577,196	248,947,522	349,673,000
Labour	11,866,630	12,375,200	13,124,256	14,117,741	15,580,373	21,884,273
Other	17,516,768	18,267,487	19,373,196	20,839,716	22,998,760	32,304,179
Total	**375,782,662**	**391,887,633**	**415,608,133**	**447,069,007**	**493,386,405**	**693,013,141**

Source: LLPI Computations based on LIDI assumptions and GTP II Targets

4.2.2 Footwear Production

The footwear segment is one of the fastest growing industry segment in terms of trade globally. In addition it is labour intensive; hence it is of strategic importance to the growth of the Ethiopian economy. In the footwear category, in order to meet footwear production, direct inputs required will be valued at US$396.8 million for the entire period. The initial expenditure is expected to grow from US$25 million in 2014/15 to US$128 million by 2019/20. For details see Table 28.

Table 28: Direct Financial Requirement to meet GTP II, for Footwear Output Targets (US$)

FOOTWEAR PRODUCTION FUNCTION	**2014/15 base**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Leather	10,735,500	14,819,200	20,460,600	28,249,100	38,984,600	53,803,800
Soles	5,508,000	7,603,200	10,497,600	14,493,600	20,001,600	27,604,800
Accessories	3,391,500	4,681,600	6,463,800	8,924,300	12,315,800	16,997,400
Labour	2,550,000	3,520,000	4,860,000	6,710,000	9,260,000	12,780,000
Other Inputs	3,315,000	4,576,000	6,318,000	8,723,000	12,038,000	16,614,000
	25,500,000	**35,200,000**	**48,600,000**	**67,100,000**	**92,600,000**	**127,800,000**

Source: LLPI Computations based on LIDI assumptions and GTP II Targets'

4.2.3 Gloves Production

Gloves production is a new area, which has great potential especially for industrial and fashion gloves. The production of industrial gloves, can also contribute to the utilization of low quality leather, thus minimize losses associated with the rejections association with low quality hides and skins. In addition it's a low skill and capital requirement area, which can be used to boost the growth of MSMEs. A total cumulative budget of US$9.4 million is expected in the duration of GTP II, to support the production of the set output targets. Annual budget is expected to rise from US$1.4 million in 2014/15 and is expected to rise to US$1.8 million by 2019/20. For details see Table 29.

Table 29: direct Financial Requirements to meet GTP II, Gloves Output Targets (US$)

GLOVES PRODUCTION FUNCTION	2014/15 base	2015/16	2016/17	2017/18	2018/19	2019/20
Leather	956,823	1,014,812	1,072,801	1,130,790	1,159,785	1,246,769
Accessories	129,183	137,012	144,841	152,670	156,585	168,329
Labour	143,748	152,460	161,172	169,884	174,240	187,308
Utilities	42,199	44,756	47,314	49,871	51,150	54,986
Other	89,162	94,566	99,969	105,373	108,075	116,181
Total Value	**1,361,114**	**1,443,606**	**1,526,097**	**1,608,589**	**1,649,835**	**1,773,573**

Source: LLPI Computations based on LIDI assumptions and GTP II Targets

4.3 Summary

The strategic issue emerging from the analysis is that Ethiopia will need to invest a minimum of US$3.2 billion in order to meet some of the targets set under GTP II. Thus sources of finance and suitable financial instruments should be identified and activated to support the sector.

CHAPTER V: STRATEGY

The Vision and Mission of this Strategy was informed by the overall policy of the Government to transform the country into a Lower Middle Income Country level by 2025. Ethiopia is a livestock rich country and is ranked tenth globally; hence, it holds a unique comparative advantage, above most countries that are leading in the production of leather and leather products. However, for Ethiopia to join the global ten countries, it should embrace efficient production systems that will stimulate growth and competiveness. She should invest in technology, human resources, procurement, production, management systems, total quality management systems and design financial instruments which are appropriate to the production cycle of the leather value chain. Furthermore, it should enhance vertical and horizontal collaboration among the chain actors and other specialized institutions and stakeholders.

5.1 Vision and Mission

Vision: To be a global leader in the manufacturing and trading of environmental friendly and high quality leather products.

Mission: To facilitate the provision of technical, human and financial resources required to stimulate the growth and competitiveness of Ethiopian Leather Value Chain.

5.2 Strategic Output and Export Goals in the Next 5 years

The different products display different exports penetration; gloves and finished leather exhibit higher export propensity. The main export markets are Europe and the USA. In recent years there is, however, growing interest to export to African countries as well. By 2020 the industry is projected to be valued at US$8.4 billion dollars and exporting US$800 million dollars per annum, as set out in GTP II. The output and export goals, which are summarized in Table 30, are for the next five years.

Table 30: Annual Performance Targets

Description	2014/15 base	2015/16	2016/17	2017/18	2018/19	2019/20
Current Production Capacity						
Finished leather (million square feet)	301	313.9	332.9	358.1	395.2	555.1
Shoes (pair in millions)	13.8	17.9	24.7	35.8	52.3	75.2
Glove (pair in millions)	2.55	3.52	4.86	6.71	9.26	12.78
Leather goods (pieces in millions)	1.23	1.43	1.68	1.97	2.33	2.75
Leather garments (pieces in millions)	0.33	0.35	0.37	0.39	0.40	0.43
Capacity Utilization (%)						
Finished leather	62	71	81	86	90	91
Shoe	62	68	75	79	84	90
Glove	80	80	80	84	88	90
Leather goods	50	57	65	75	80	82
Leather garments	12	21	38	57	63	70
Productivity						
Shoe (pair/men/day)	2.75	3.64	4.2	5.01	5.84	6.96
Glove (pair/men/day)	4	4.71	5.94	6.58	8.01	9.93
Job creation	12,000	48,000	52,000	66,000	76,000	94,000
Gross value of production (Billion USD)	1.33	2.58	3.83	5.16	7.08	8.4
Exports (Million USD)	160	200	300	400	600	800

Description	2014/15 base	2015/16	2016/17	2017/18	2018/19	2019/20
Finished leather		119	154	167	200	214
Shoes		73	126	196	329	486
Glove		8	16	27	52	75
Leather goods		0.4	3.3	8	15	20
Leather goods & garments		0.1	0.8	2	4	5

Source: GTP II (Note some of the descriptions in column 2 have been modified)

5.3 Strategy Objectives and their Rationale

The objectives and interventions listed in Table 31 elaborate the interventions areas whose implementation will create specific outputs that will lead to the achievement of the targets set in Table 22. The objectives are process objectives that are supported with specific sub objectives, which are measurable (SMART). The main strengths of process objectives are that they bring in flexibility in the strategy that creates room for adjustment and alignment during the annual review, in line with the prevailing circumstances. A set of sub-objectives will be introduced annually in response to new dynamics globally, regionally, nationally and at enterprise level. The rationale for the selected objectives is summarized in Table 31.

Table 31: Rationale for the Strategic Objectives

No.	Objectives	Rationale based on Emerging Issues
1.	To improve supply chain management across the whole value chain	The industry is constrained by a number of bottlenecks at every stage of the value chain that have resulted in tying up capital, failure to meet delivery times. In order to boost productivity and competiveness the supply chain management system that promotes lean production system should be implemented across the value chain.
2.	To enhance resource optimization across the value chain; ,	Resource optimisation enhances productivity improvement and consequently competitiveness. It promotes increased productivity, cutting down of costs and waste, consequently contributing to sustainability. The industry is currently highly constrained because of low productivity across all the factors of production.
3.	To facilitate exports expansion in high returns markets	Ethiopia has incurred a negative trade balance for many years, and the leather sector is recognized, among other sectors, to contribute to the reduction or elimination of the deficit. Exports performance of the leather sector was below set targets in the past five years. It is, thus, imperative that specific activities be implemented to stimulate exports earnings in line with the targets being set under GTP II.
4.	To promote technological transfer and up gradation	Technology advancement is important in boosting efficiency and, consequently, competitiveness. For the Ethiopian leather industry to leap forward there is a need to enhance its adaptation and adoption of technology from leading companies or countries in the region.
5.	To enhance total quality management across the value chain	Quality challenges cut across the whole value chain, from rearing of livestock to the production of the final products. There is a need to work with relevant quality improvement institutions to ensure that the sector produces quality products at every stage. Production of poor quality goods, which feeds into the next stage of the value chain, undermines the competitiveness of the whole chain.
6.	To facilitate resource mobilization	Enterprises are currently performing below capacity; and this has been partly attributed to inadequate access to lines of credit to support procurement, production and marketing. Suitable instruments of finance must be designed and implemented in order to enhance the competitiveness of the sector, for it to perform competitively in line with global leaders such as Italy, China, and Turkey, among others.
7.	To support the development of Clusters	There are thousands of MSMEs operating in the Ethiopian Leather Value Chain for many years; their growth is being constrained because they are operating in isolation. Cluster Development will enhance the growth of these MSMEs through joint action in the area of procurement, production and marketing. In addition, Clustering reduces the cost of Government

No.	Objectives	Rationale based on Emerging Issues
		support and makes MSMEs accessible to many services offered by public institutions and international development agencies. Growth of MSMEs is critical for poverty reduction, as most MSMEs are initiated by lower income groups, women and youth. Horizontal and vertical collaboration of MSMEs with established firms is important as it helps to boost technology transfer, sharing challenges and opportunities.
8.	To facilitate horizontal and vertical collaboration of chain players and other relevant stakeholders	A number of cross-cutting issues are listed in the SWOT analysis, which have a bearing on the creation of an enabling business environment. Collaboration is essential in enabling optimization in resource use and dealing with emerging challenges systematically and coherently. There is need to strengthen both Public and Private Sector institutions that are involved in developing the leather sector in Ethiopia.
9.	To promote environmental and sustainable production systems across the value chain	Promotion of production systems, which promotes the attainment of Sustainable Development Goals and also climate change proofing, is now a major theme for development, entering new markets and also attracting development funds. Markets are becoming more critical about environmental impact of production, thus countries that continue to ignore cleaner production systems risk being excluded by the first world markets.

5.4 Sub-Objectives, Activities and Measurable Outputs

Under every objective, sub-objectives and expected output indicators are presented. The assumption is that the implementation of these activities will generate outputs that will create outcomes that will lead to the attainment of this Strategy's Vision.

Table 32: Objective One Sub-objectives

Objective 1: To improve supply chain management across the whole value chain			
Sub-objectives	**Expected Output/Outcome**	**Stakeholders**	**Budget Estimate (USD)**
Conduct supply chain management diagnostic survey across the value chain	Report outlining specific interventions to improve supply chain management across the value chain.	• LIDI • MOI • MOT • MOFEC • Leather and leather product industries • Sector associations; • Enterprises across the value chain	
Validate the report and design an intervention work plan	Work plan and report adopted		
Organize Seminars to raise the awareness of enterprises management on the benefits of Supply Chain Management	Number of enterprises trained		
Mobilize resources to implement the findings of the study and the work plan	Fundraising proposals developed and submitted to Development Partners and Government		
Train 100 functional line managers in supply chain management	100 functional line managers trained		
The trained managers to introduce supply chain management systems in their enterprises	100% implementation of the supply chain management systems		
Design performance indicators template to monitor the performance of those implementing and not implementing	Template adopted and enterprises trained on completing it		
Review its adoption and implementation bi-annually	• Bi-annual report; • Benchmarking report about enterprises implementing SCM, including those not implementing it		

Organize exchange visits, targeting enterprise, which have implemented it successfully, to promote cross learning	Number of exchange visits implemented and number of participants		

Table 33: Objective Two Sub-objectives

Objective 2: Enhance resource optimization across the value chain.			
Sub-objectives	**Expected Output/Outcome**	**Stakeholders**	**Budget Estimate**
Undertake exploratory survey on resource use of leather and leather products factories.	Draft report circulated and validated.	• MOI • LIDI • Cleaner Production Centre • Ethiopian Kaizen Institute	
Raise the awareness of enterprises to appreciate the benefit of resource optimization	Number of enterprise targeted with the awareness raising		
Formulate and implement resource optimization techniques.	Production and productivity of leather factories increased.		
Train 100 technical personnel in resource optimization methodologies	The number of personnel trained		
Design a template for measuring enterprises usage of water, energy, other inputs and waste vs their outputs .	Template adopted and enterprises trained on completing it		
Promote the implementation of resource optimization systems	Number of enterprises implementing the system		
Review its adoption and implementation bi-annually	• Bi-annual report; • Benchmarking report about enterprises implementing SCM, including those not implementing it		
Organize exchange visits, targeting enterprises, which have implemented it successfully to promote cross learning	Number of exchange visits implemented and number of participants		
Undertake a detailed study on mechanisms of reducing the cost of chemicals	Study undertaken		

Table 34: Objective Three Sub-objectives

Objective 3: To facilitate exports expansion in viable markets			
Sub-objectives	**Expected Output**	**Stakeholders**	**Budget Estimate**
Asses the marketing capabilities of 30 enterprises across the value chain	Report circulated and validated	LIDI Leather and Leather Product Producers Industries Development Partners	
Undertake a study targeting the following specific areas: • High growth and profitable markets; • Assessment of different marketing models; • Asses the marketing capabilities of enterprises in the leather value chain	Report circulated and validated		
Encourage the enterprises to implement the findings of the studies through awareness raising	Number of enterprises that implemented the findings of the study		
Validate the findings of the study and develop strategic interventions	Validated report and strategic interventions		
Develop a market strategy on company	Wider market access based on		

Objective 3: To facilitate exports expansion in viable markets			
Sub-objectives	**Expected Output**	**Stakeholders**	**Budget Estimate**
specific bases in order to enter into different continental and global markets.	product & buyer's characteristics.		
Facilitate the establishment of leather & leather products out-lets in selected potential markets abroad.	Increased turnover and profitability		
Implement different market promotion activities to create a market linkage with potential buyers.	Export of leather and leather products increased.		
Raise the awareness on improving enterprises marketing systems and capacities	Number of enterprises targeted with the awareness raising campaign		
Facilitate a capacity building program on market development	Number of personnel trained		
M & E	Compile a quarterly report of the performance on market development.		

Table 35: Objective Four Sub-objectives

Objective 4: To promote technological transfer and up-gradation			
Sub-objectives	**Expected Output**	**Stakeholders**	**Budget Estimate**
Activities			
Assess the technological gap between Ethiopian Enterprises against three selected countries	Study report	• MOI • LIDI • MOFA • Investment Commission • Leather and Leather Product producers • Ministry of Science and Technology; • Ethiopia Kaizen Institute • Academia	
Validate the study and develop strategic interventions to improve technology transfer and up-gradation	Intervention plan		
Raise awareness on the importance of using improved technology and the existing gaps in the Ethiopian industry	Number of enterprises targeted		
Promote joint venture activities among Domestic Investors and FDI	Number and value of joint ventures facilitated		
Strengthen and expand short and long term training on technology advancement	Number of people trained		
Facilitate the relationship and technology transfer efforts among local & foreign industries.	Number of relationships facilitated and the number of people trained		
Facilitate Forums among FDI and Domestic Investors	Number of forums held and the number of participants		
Facilitate students internship in FDIs	Number of students who complete the internship program		

Table 36 Objective Five Sub-objectives

Objective 5: To enhance total quality management across the value chain			
Sub-objectives	**Expected Output**	**Stakeholders**	**Budget Estimate**
Activities			
Undertake a gap analysis on quality management system across the enterprises	Study report circulated and validated	• LIDI • KAIZEN Development Institute; • Quality Development Institutes • Development	
Raise awareness on the importance of TQMS and Kaizen	Number of enterprises targeted		
Facilitate the training of 100 managers in TQMS and Kaizen	Number of people trained		
Facilitate the implementation of TQMS along the whole value chain.	The number of enterprises who implement TQMS and		

Objective 5: To enhance total quality management across the value chain			
Sub-objectives	**Expected Output**	**Stakeholders**	**Budget Estimate**
Facilitate the implementation of KAIZEN system along the value chain.	KAIZEN	Partners	
Organize exchange visits, targeting enterprises, which have implemented it successfully to promote cross-learning	Number of exchange visits implemented and number of participants		
M & E	Compile a quarterly report of the performance on market development.		

Table 37: Objective Six Sub-objectives

Objective 6: To facilitate resource mobilization			
Sub-objectives	**Expected Output**	**Stakeholders**	**Budget Estimate**
Activities			
Conduct a study on credit supply problem and design suitable financial instruments which improve the competitiveness of the industry.	Enhanced production and export performance of leather & leather products factories.	MOI LIDI MOFEC Financial Institutions	
Asses the Financial Management capacity of the various enterprise in the leather sector	Report validated and strategic interventions designed		
Implement the strategic interventions	Progress reports		
Asses the challenges associated in delaying the refund under the incentive schemes	Report validated and interventions recommended		
Increase efficiency of the implementation of production and export incentive schemes	Working capital provision and sales increased		
Conduct sector financial needs assessment for the leather sector, support industries and regulatory institutions in the region	Study validated and interventions designed		
Design suitable financial instruments in consultation with national, regional and international (development banks) financial institutions	Number of Instruments adopted by the financial sector		

Table 38: Objective Seven Sub-objectives

Objective 7: To support the development of Clusters			
Sub-objectives	**Expected Output**	**Stakeholders**	**Budget Estimate**
Activities			
Profile MSMEs and asses their capacity to work as clusters – target major towns where MSMEs are visible	Study report	• Ministry of Industry • LIDI • Federal Micro and Small Enterprises Development Agency • Federal Cooperative Agency • City Administration • Local Government • MOHCAO	
Validate the findings of the report	Validated report		
Train officials from responsible line ministries, institutions and sub-cities in Cluster Development Management	Number of officials trained		
Asses the suitability of current proclamation in supporting the development of Clusters	Study report and findings submitted to responsible authorities		
Develop different Clustering Models	Report		
Based on the number of models	Number of Clusters		

Objective 7: To support the development of Clusters			
Sub-objectives	**Expected Output**	**Stakeholders**	**Budget Estimate**
developed initiate pilot Clusters in various towns of Ethiopia	established		
Monitor the performance of the Clusters quarterly	Quarterly reports		
Promote cross-learning across the different pilot projects			
Develop leather products clusters, input and market centers in different regions.	• Increased interaction of procurement, production and marketing. • Effective support activities by concerned stakeholders.		

Table 39: Objective Eight Sub-objectives

Objective 8: To facilitate horizontal and vertical collaboration of chain players and other relevant stakeholders			
Sub-objectives	**Expected Output**	**Stakeholders**	**Budget Estimate**
Activities			
Asses the performance of the various associations across the value chain and also identify gaps	Study report	MOI MOFLD LIDI Leather and Leather Product Producers sector specific Associations	
Validate the findings of the study, and design intervention to strengthen the existing association and recommend for the creation of new ones	Interventions plan		
Design a framework for collaboration across the value chain	Submit recommendations to relevant authorities.		
Prepare consultative meeting for the chain actors and other stake holders.	• Trust and collaboration of chain actors should be increased. • Performance of the industry should be improved trough concerted effort.		

Table 40: Objective Nine Sub-objectives

Objective 9: Mainstream environment management across the value chain			
Sub-objectives	**Expected Output**	**Stakeholders**	**Budget Estimate**
Activities			
Provide project managers and staff with access to expertise on environment mainstreaming and assistance with integrating environmental considerations related to market development activities	Staff and partners are aware and capable of addressing environmental impacts and risks and realize environmental opportunities associated with trade	MOI Environmental Protection Authority Development Partners	
Develop appropriate tools and guidelines on environment and sustainable trade for Leather exporters and their Associations, such as a business guide to building climate resilience			
Host in-house workshops and provide information on environment, trade and development			
Include procedures for assessing and addressing environmental considerations	Environmental priorities are integrated, in coordination with other development priorities, in project consultation, design and implementation		
Develop assessment tool to build capacity to integrate environmental considerations into market design stage			

Objective 9: Mainstream environment management across the value chain			
Sub-objectives	**Expected Output**	**Stakeholders**	**Budget Estimate**
Develop consistent framework for integration of environmental sustainability into sector competitiveness strategies and national export strategies			
Monitor and evaluate project impacts on environmental sustainability, including publishing clear targets and a strategy to meet them	Measures and Communicates results of environment mainstreaming through monitoring, evaluation and reporting systems		

5.5 Implementation Methodology

The Strategy implementation will be led by the Ministry of Industry. The practical implementation will be coordinated by LIDI in collaboration with the Apex Body of the Leather Industry. Public Private Sector collaboration is important in delivering this Strategy. Thus, an Apex Council of Private Sector, Government and Academia should be established first to drive the implementation of this Strategy. This Council should come up with a detailed annual work programme drawn from the key activities highlighted in the Strategy. The monitoring and evaluation process should be supported by continuous data collection. Details of responsibilities and accountability will be guided by the Strategy Unpacking Process, which will be facilitated by COMESA/LLPI after the Launch of the Strategy. The Strategy would be subject to annual implementation performance review; however, a detailed Mid-Term Impact Review should be undertaken after 2.5 years.

5.6 Implementation Plans

The global, regional and domestic dynamics of modern economics are very fast; external and internal conditions of enterprises or value chains have to keep pace with such changes. Given the scenario, strategies should be flexible to give room for necessary adjustments that are necessary to ensure that the set targets are met. To enhance the capacity of this strategy to keep pace with the dynamics of the global, regional and domestic dynamics, this strategy gives an outline of broad interventions, as sub-objectives, which should be transformed into specific activities in the annual work plan. The annual work plan for every year should be informed by a thorough review of the implementation process, the performance of the value chain and also the dynamics in the external environment. A Technical Committee composed of representatives of all the value chain segments, LIDI, line Ministries and other stakeholders should be tasked to review the implementation process of the Strategy quarterly, which will contribute to the annual report. The annual report will form a solid base for crafting a work plan for the following year.

5.7 Monitoring and Impact Indicators

The performance of the Strategy will be judged by the value that will accrue to value chain actors in form of outputs, exports and employments and other economic benefits. In the short term, the output and outcome indicators will used to monitor and gauge the implementation of the strategy. The monitoring template is an outcome of the annual work plan. Quarterly review will focus on the assessing whether the agreed activities are being implemented.

Impacts – are the ultimate criteria for gauging a strategy's performance. The impact indicators of this strategy are presented in Table 41.

Table 41: Impact Assessment of the Strategy

Description	2014/15 base	2015/16	2016/17	2017/18	2018/19	2019/20
Current Production Capacity						
Finished leather (million square feet)	301	313.9	332.9	358.1	395.2	555.1
Actual						
Variance						
Shoes (pair in millions)	13.8	17.9	24.7	35.8	52.3	75.2
Actual						
Variance						
Glove (pair in millions)	2.55	3.52	4.86	6.71	9.26	12.78
Actual						
Variance						
Leather goods(pieces in millions)	1.23	1.43	1.68	1.97	2.33	2.75
Actual						
Variance						
Leather garments (pieces in millions)	0.33	0.35	0.37	0.39	0.40	0.43
Actual						
Variance						
Capacity Utilization (%)						
Finished leather	62	71	81	86	90	91
Actual						
Variance						
Shoe	62	68	75	79	84	90
Actual						
Variance						
Glove	80	80	80	84	88	90
Actual						
Variance						
Leather goods	50	57	65	75	80	82
Actual						
Variance						
Leather goods and garments	12	21	38	57	63	70
Actual						
Variance						
Productivity						
Shoe (pair/men/day)	2.75	3.64	4.2	5.01	5.84	6.96
Actual						
Variance						
Glove (pair/men/day)	4	4.71	5.94	6.58	8.01	9.93
Actual						
Variance						
Job creation	12,000	48,000	52,000	66,000	76,000	94,000
Actual						
Variance						
Gross value of production (Billion USD)	1.33	2.58	3.83	5.16	7.08	8.4
Actual						
Variance						
Exports (Million USD)	160	185	300	400	600	800
Actual						
Variance						
Finished leather		119	154	167	200	214
Actual						
Variance						
Shoes		73	126	196	329	486

Description	2014/15 base	2015/16	2016/17	2017/18	2018/19	2019/20
Actual						
Variance						
Glove		8	16	27	52	75
Actual						
Variance						
Leather goods		0.4	3.3	8	15	20
Actual						
Variance						
Leather goods & garments		0.1	0.8	2	4	5
Actual						
Variance						

Source: GTP II (format modified)

5.8 Responsibility Matrix

The development of the leather value chain in Ethiopian is led by the Ministry of Industry; essentially, the Ministry is accountable to the Federal Government, with regard to the performance of the leather value chain, and to targets, which are set at national level. This Strategy is a holistic document, thus, its successful implementation is dependent on the ability of the Ministry of Industry to collaborate and work with other Ministries and Stakeholders, who have a statutory responsibility or interest with regard to some of the segments of the leather value chain. To enhance the efficacy and effectiveness, in collaboration, in the implementation of the Strategy, it is imperative that responsibility and accountability be incorporated in the final Strategy documents. The process of allocating responsibility and accountability is undertaken once the strategy has been officially launched. Through a participatory process, responsibilities for championing specific objectives or sub-objectives are allocated and signed off through the leadership of the Ministry of Industry. The document, which summarizes these allocations is called a Responsibility Matrix and will be an Annex to this Strategy. This Matrix is subject to review annually based on performance.

Annex 1: Model Simulation Assumptions[12]

1. Performance and the operational capacity 2014/15, excluding current capacity expansions and new investments

Installed Soaking Capacity pieces per day		Installed Soaking Capacity Pieces per Year		Actual Soaking Pieces per Year		Performance (%)	
Hides	**Skins**	**Hides**	**Skins**	**Hides**	**Skins**	**Hides**	**Skins**
10,500	162,380	2,940,000	45,466,400	2,026,288	18,937,238	69	42

2. Taking the assumption (on average) that 1piece of bovine hide converts to 24 ft^2 of finished leather
3. 1pc of sheep skin =5.0 ft^2
4. 1pc of goat skin=4.0 ft^2, then;
5. The installed soaking capacity ratio of bovine hide vs skin in pieces is 0.065
6. The installed soaking capacity ratio of bovine hide vs skin in ft^2 is 0.35
7. The actual soaking capacity ratio of bovine hide vs skin in pieces is 0.11
8. The actual soaking capacity ratio of bovine hide vs skin in $ft^2$is 0.57
9. The average weight of wet salted Bovine hide is 15kgs/pc
10. The average weight of wet salted Sheep skin is 1.4kgs/pc
11. The average weight of wet salted Goat skin is 1.3kgs/pc
12. 3. The average square feet of finished bovine hide 24sq.ft/pc. Therefore 1kg =1.6 ft^2
13. The average square feet of finished leather sheep skin is 5 ft^2 pieces
14. The average square feet finished leather Goat skin is 4.0 ft^2 pieces
15. The amount of finished leather in square feet required to manufacturing standard shoe is
    - For upper part 2.6 ft^2.
    - For lining 2.1 ft^2
16. The amount of finished leather in square feet required to manufacturing average size of glove is 5 ft^2
17. Share of production cost components from soaking to finished leather; based on the recent business scenario in Ethiopia (only average)
    a. Cow Hides

Item	Birr/pc	% contribution
Cow Hide	180	39.85≅40
Chemical	233	51.59≅52
Labor	14.87	3.29≅3.3
Other	24	5.27≅5.3

    b. Sheep Skins

Item	Birr/pc	%

[12] Source: LIDI

		contribution
Sheep skin	50	48
Chemical	46	45
Labor	1.35	3.2
Other	3.87	3.8

c. Goat skins

Item	Birr/pc	% contribution
Goat skin	30	37
Chemical	46	55
Labor	1.35	2.9≅3
Other	3.87	5.1≅5

18. Average price of finished leather for the past 4 years.

Year		Total sq.ft exported	Total sold USD	Average Unit price USD/ ft^2
2005 E.C	Hide	6,360,783.60	6,121,334.56	1.00
	Sheep	35,158,473.00	63,907,914.21	1.65
	Goat	20,884,456.41	27,663,105.65	1.12
2006 E.C	Hide	2,487,241.08	2,869,650.30	1.15
	Sheep	32,795,637.95	65,261,209.73	1.99
	Goat	24,138,841.36	32,241,775.94	1.34
2007 E.C	Hide	6,360,783.60	6,121,334.56	0.96
	Sheep	35,158,473.00	63,907,914.21	1.82
	Goat	20,884,456.41	27,663,105.65	1.32
2008 E.C	Hide	7,156,155.60	6,257,862.00	0.87
	Sheep	32,882,563.02	45,334,806.22	1.38
	Goat	23,150,393.58	21,582,726.84	0.93

19. Footwear production (Cost components distribution)

#	Item	Percentage	Remark
1	Leather (both upper and lining)	42.1	Casual Gents shoe made of leather upper, TR/PU/Rubber out sole, leather lining and any accessories and component
2	Soles	21.6	
3	Accessories	13.3	
4	Labor	10	
5	Other	13	

20. Glove Production (Cost components distribution)

#	**Description of Inputs**	**Percentage**
1	Leather	70.29
2	Accessories	9.49
3	Salary and Wages	10.56
4	Utilities	3.10
5	Other Expenses	6.55

Table 42: Annex 2 List of the Strategy Review Team Members

Name	Designation	Organization
Mr. Gizaw Mola - Chairperson	Manager , Planning & MIS	ELICO
Mr. Admassu Yifru	Director, Leather & Footwear Industry Study, M & E Directorate	Ministry of Industry
Mr. Taye Tibebu	Director, Leather Technology Directorate	LIDI
Mrs. Birkinesh Gonfa	Director, Marketing Directorate	LIDI
Mr. Shimelis Kifle	Senior Economist	LIDI
Mr. Mulualem	Commercial Manager	EIFCCOS
Mr. Feraw Kebede	General Manager	Oliberte LTD
Mr. Muluken Gebeyaw	By- Products Manager	Addis Ababa Abattoir Enterprise
Mr. Habtamu Shiferawa	Production Manager	Debre Berhan Tannery