

The role of the **Ethiopian Private sector** in fostering productive capacities and structural economic transformation: **opportunities, challenges, and prospects**

March, 2022



Ethiopian Leather Industry

Leather-From Waste to Wealth

Inelastic relation b/n leather and meat industry: no driving power



Create Value



Main Target product



By-Products

- Cannot be eliminated
- High organic content



Huge environmental load in terms of organic waste!

Hide & Skin



Disposal?



Leather Production Guarantees the best value creating path



Disposal

Huge environmental load in terms of organic waste!

Destroy value

By-Products

- Cannot be eliminated
- High organic content

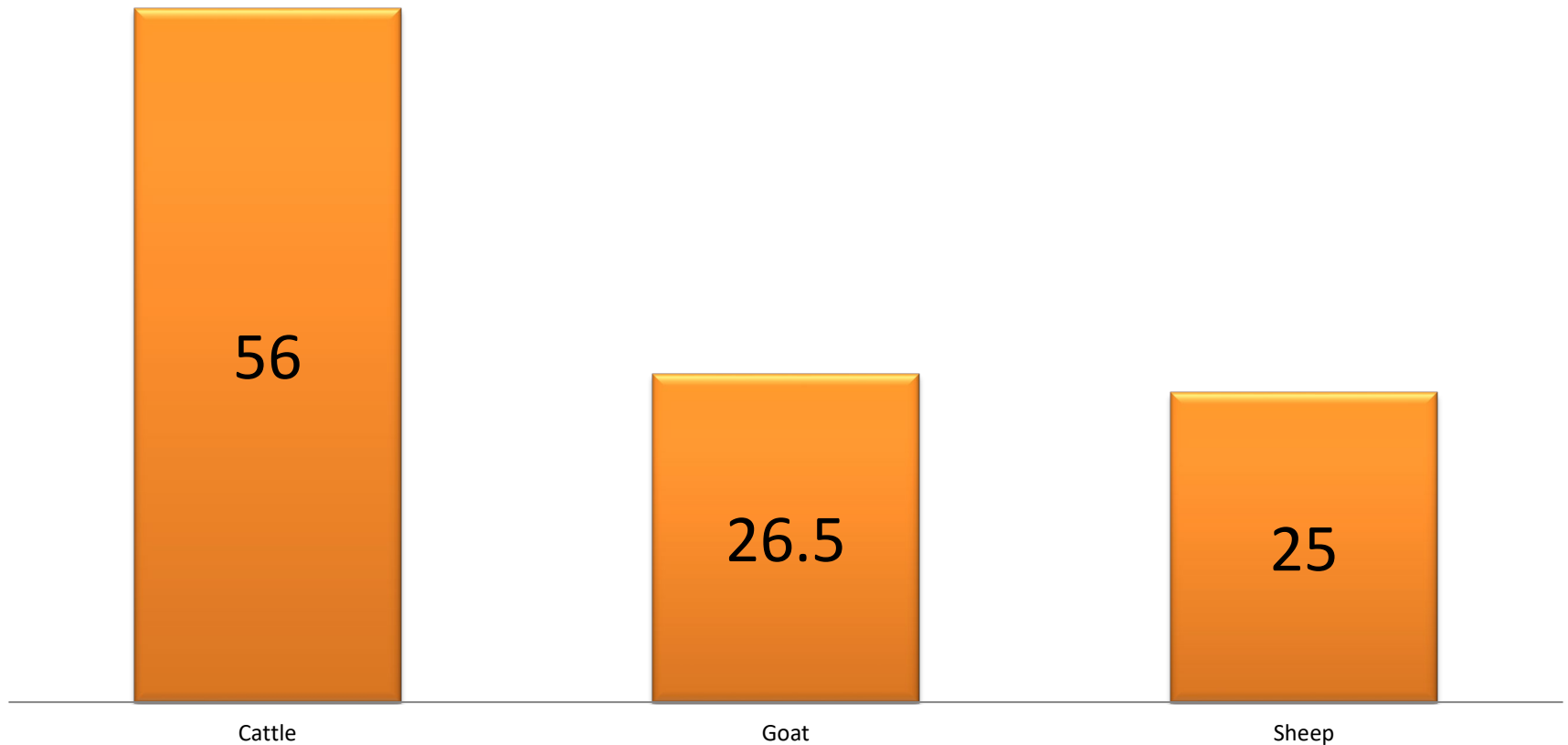
Leather Product



Creates Value

Ethiopia has abundant and available leather raw materials

Ethiopian Livestock Population (in Million)



The Live Stock population of Ethiopia contributes nearly 3% to the global stock.

- World livestock population estimated at 3.5 billion.
- Africa's represents 26.32% of World livestock Population

- World hides and skins production estimated at 1.3b pcs
- Africa's share is estimated at 14% of world production

Why make leather priority

- *The value of the leather global market and its by-products is **several times greater than the market for fresh and canned meat**, albeit the fact that skins are a by-product of meat production. The value of global trade in the leather sector (raw hides and skins, leather and leather footwear) is much more significant: when compared with the trade of other commodities,*
- ***the trade in the leather sector is three times that of meat,***
- ***four times that of coffee and***
- ***more than eight times the trade in rice***

Global Leather Industry Overview

- Leather industry is one of the oldest manufacturing sectors. The raw material used in leather industry is derived from the livestock or animal farming industry, then being put through several processes including tanning and finishing etc.
- The Leather and leather goods are the most widely traded commodities in global exports. The Leather and leather products industry plays a prominent role in the world's economy.

- Today, leather is still one of the most luxury materials that are used to produce a wide range of high-end products such as **leather footwear, leather bags, leather garments, and so on.**
- The global leather goods market size was valued at **US\$ 414.0 billion in 2017, it is expected to reach US\$629.65 billion by 2025,** representing a strong CAGR (Compounded Annual Growth Rate) of over 5.4% during the forecast period

PUBLIC PRIVATE PARTNERSHIP IN THE LEATHER SECTOR

- ❖ The Country has the resource (Volume and Unique brand)
- ❖ The Country has the market (Local, Regional and International)
- ❖ Public interest (Gov't – Fundamental Transformation) (Employment, Import substitution and export earnings)
- ❖ Private interest (Profit –Sustainability)

VALUE ADDITION POLICY

- **Leather sector** – perfect policy formulation
- **Policies** -industrial policy
- **Strategies**- Value addition
- leather sector, one of the most lucrative agro-based industries in the world, characteristically, long value chain with multiple socio-economic dimensions. These entail employability, creation of wealth, gender parity and rural development.

Benchmark

- *Which paths have countries such as China, India, Italy and Vietnam followed to become export leaders in the LLPI world market? What lessons can be learned?*
- *These countries followed the TDA approach to transform this sector with excellent results, and Ethiopians benchmarked these countries.*

SWOT ANALYSIS

- **Strengths:** *Raw material availability. Sheep and goatskins perceived as of being of a very high quality by importing countries.*
- **Weaknesses:** *Poor animal husbandry practices, inadequate training of extension officers that lead to problems and diseases in breeding, recovery (quantity) and quality of H&S.*
- **Opportunities:** *There is an export-led industrialization strategy in which LLPI included and fully supported by the government.*
- **Threats:** *Not implementing TDA strategy can potentially destroy the Ethiopian Leather sector*

POLICY, STRATEGY and APPROACH

- *Accepted Policy and Strategy- Value Addition*
- *Approach-“Top-down (Pull)” Approach (TDA)*
- *experimented with in China and Italy for the footwear industry.*
- *According to this approach the leather products, mainly, footwear, selected as the priority sector, followed by leather garments and leather goods, should be developed in a way that they would “pull” the tanning sector to produce better quality and increased quantity of finished leather; subsequently the quantity and quality of raw material.*

“TOP DOWN APPROACH” TDA



What kind of Policy Interventions does value addition need?

- ❖ Organized animal farming to fulfill acute shortage of raw material
- ❖ Needs to create new capacities and production center of value added leather products *Infrastructure.*
- ❖ Needs to explore new markets for export or local market and *Industrial Management*
- ❖ *Macro-Economic and Finance (Incentives)*

Cause- Before COVID-19- implementation challenge

- The government only did increased the export duty or banning the export of semi-processed leather
- Pushed the private sector to invest more with out protection- this was not investors friendly
- The private sector again forced to built effluent treatment plants with their own working capital
- linkage with livestock sector remained weak and limit expansion of the industry- the same resource base

Effect-Result before COVID-19

1. Market problems in the hide and skin trade
2. Working capital and liquidity problems in Tanneries
3. Limited regulatory and enforcement capacity to incentives
4. Low capacity utilization – low productivity
5. Constraints on international market penetration and competitiveness

Beginning of New Thinking and Implementation

- ❖ Understanding the policy sequence and intervention
- ❖ private sector led market economy and home grown economy
- ❖ Public private partnership

Current Partnership (Public –Private)

The private sector (the Association) present the initiatives to the government the government support selected incentives (Best examples)

1. Policy revision- free export duty
 2. ***Allowing Duty free for import of accessories and components for local and international market.***
- ***This will make the sector competitor at international level including African market***

Local Market incentives

- ❖ Local market protection and Import substitution
 - ❖ IMPORT SUBSTITUTION = EXPORT – **strategic direction change**
 - ❖ Local market is a base for the export
1. School shoe and bag – for 30million students
 2. Military shoe

Production center-**investment by the government**

- *Infrastructure for value added leather products*
- Leather city initiatives
 1. MODJO Leather city with common effluent treatment
 2. Akaki leather and leather product cluster compound

New Market

- Protect the local market with different mechanisms and explore new markets for export or local market
1. Ethiopian Airlines (Addis Ababa Airport Terminal 2) Big shop for export market initiatives (Leather products pavilion at the Terminal as a duty free product)
 2. Ethiopian leather and leather products is well known by all Africans – the prospects

ETHIOPIAN LEATHER

Addis Ababa Bole International Airport Duty Free Shop Image Perspective



ETHIOPIAN LEATHER

Addis Ababa Bole International Airport Duty Free Shop Image Perspective



What role the private sector has the implementation of policies

1. Identify and present the gaps and suggest the possible interventions
2. Build positive relationship with the actors
3. Support the implementation and the process
4. Make local and global continuous research and forecast the future

Challenges

- ❖ Leadership weakness in both private and public
- ❖ supply chain – poor local value chain
- ❖ inconsistent policy – poor intervention –poor coordination
- ❖ Capacity both finance (working capital and forex) and human resource
- ❖ Difficulty in data- acquisition – A shortage of accurate and relevant facts and statistics

Thank You