



TOGETHER
for a sustainable future

OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.



TOGETHER
for a sustainable future

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org



Made in Ethiopia

Leather and leather products for the global market



The designations employed and the presentation of material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries. Designations such as “industrialized,” “developed” or “developing” countries are used for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not imply endorsement by UNIDO.



A master plan to upgrade the Ethiopian leather value chain

Ethiopia's 90-million cattle, sheep and goat population is one of the world's largest, and its highland sheepskins and Bati Genuine goatskins enjoy international recognition for their unique mixture of fine characteristics. The country's 27 tanneries are largely export-oriented and produce both semi-processed and finished leather. Over a dozen large mechanized factories spearhead the footwear industry, some of them having lucrative subcontracting arrangements with Italian, Chinese and German companies, while numerous small and medium-size enterprises tend to cluster in various districts of Addis Ababa, most notably Merkato. An emerging leather garment sector is catering mostly to the domestic market, and lately a number of small companies have gained a foothold in the international market for upscale leather accessories with products featuring an ingenious mixture of ethnic motives and modern design under the label Taytu – Made in Ethiopia.

Recent successes and the sector's good prospects for the near future have solid foundations that started to be built almost a decade ago. In the early 2000's, Ethiopia suffered a marked decline in the export performance of its leather and leather products industries. Data on production and capacity utilization suggested that low levels of competitiveness prevented the sector from fully capitalizing on significant comparative advantages such as its large resource base and the attractive investment opportunities Ethiopia offered to leather products manufacturers based in industrialized countries.

At the request of the Ethiopian Government, the United Nations Industrial Development Organization (UNIDO) elaborated a master plan as the blueprint for what initially became a five-year Italy-sponsored programme. The foremost reason for the Government's request to UNIDO was the Organization's two-decade track record as the key provider of support in the development of the country's leather sector.

Sector assessment: SWOT analysis and benchmarking An analysis of strengths, weaknesses, opportunities and threats (SWOT) was the basic tool used to determine the condition of the Ethiopian leather sector. Conclusions were entered in a "problem tree" chart to illustrate the cause-effect relationships among the entries. One key objective of the exercise was to assess the external image of the sector and consequently the degree to which it met the conditions required to attract foreign direct investment (subcontracting arrangements and joint ventures) as a gateway to the global leather value chain.

The top-down (“pull“) approach



Export-oriented manufacturing of high-quality leather products



More and higher-grade finished leather through technology upgrades and best tanning practices



More and better raw material through improved animal rearing practices and sound slaughterhouse management

The next step was a benchmarking exercise that compared the Ethiopian leather sector with four best performers: India’s West Bengal, Viet Nam (leather and footwear), China (footwear) and Italy (footwear). Conclusions drawn from these comparisons were used to formulate recommendations as a policy mix capable to upgrade the country’s leather value chain and facilitate the access of Ethiopian products to the global market.

A top-down (“pull“) approach The defining strategy of the programme has been a “top-down (pull) approach” modeled on the policy mix applied in China and Italy in the footwear industry. According to this approach, development policies applied primarily in the footwear industry exert demand pressure for more and better leather, which pulls tanneries up to a higher performance level; in turn, tanneries demand more and better raw material thereby having the same upward pulling effect upon the bottom level of the value chain, the suppliers of hides and skins.

The main driving forces in the application of the top-down development strategy have been Ethiopia’s recently renamed Leather Industry Development Institute (LIDI), and the mechanism of subcontracting.

The Leather Industry Development Institute A direct beneficiary of substantial UNIDO assistance over the years, LIDI was seen by its main stakeholders as a key promoter of private sector development and competitiveness. To help the Institute live up to these expectations, UNIDO designed a separate project, financed by the Government of Italy through a trust fund agreement: *Assistance to the Leather Industry Development Institute for the development of its managerial and operative capacities*. The project has yielded significant improvements in LIDI’s capabilities to render services

ranging from technical and managerial training, applied research, and quality testing and certification to company incubation and consultancy. In addition, the Institute has developed the ability to pursue long-term strategic policies and to lobby effectively for employment and environmental legislation, for import restrictions and against dumping practices, and for opening markets.

Subcontracting For enterprises and industries in developing countries, the mechanism of subcontracting is the fastest and most effective access route to global markets. A clear emphasis on specialization or complementary subcontracting has been the main feature of the strategy pursued in Ethiopia. This form of subcontracting, in which the subcontractor produces the complete article in accordance with technical specifications provided by the contractor, is more stable and tends to create lasting partnerships. Moreover, it generates productivity gains and upgrades industrial infrastructure and basic services – such as training and quality testing and certification – in the host country. Today, among the foreign companies with subcontracting operations in Ethiopia are major shoe manufacturers such as ARA of Germany, Geox of Italy and China’s Hua Jian Industrial Holdings, which pledged recently to invest US\$2 billion and create 100,000 jobs over the next ten years.

Support interventions To support the two main driving forces of the top-down development strategy, the UNIDO programme included concerted interventions in five areas: macroeconomics and finance; raw material; technical training/manuals, industrial management and marketing; investment promotion; and ICT infrastructure. Policy advice on development incentives and guidance on improving credit availability and trade financing were the main services rendered in the area of macroeconomics and financing. To secure the necessary availability and quality of raw material, a hides-and-skins improvement scheme included the promotion of good animal rearing and slaughtering practices and the establishment of a quality grading system and efficient trading channels. Supply chain management, problem solving, and pricing and costing have been among the major topics of training in modern enterprise management, while marketing support has focused on market penetration strategies, ongoing benchmarking, and management of market and fashion information. The programme has assisted the Government in improving conditions for foreign direct investment and has developed a standard method for project preparation and a standard tool to evaluate investment proposals. Finally, enterprises have been trained in the use of information and communication technology and have been encouraged to share access to ICT facilities.

The UNIDO programme, extended in 2009 under the on-going *Technical assistance project for the upgrading of the Ethiopian leather and leather products industry*, has drawn repeated statements of appreciation from the Ethiopian Government for its significant achievements. Most notably, between 2006 and 2011, in spite of a significant decline in the country’s exports of semi-processed leather, the total value of Ethiopia’s exports of leather and leather products grew from US\$66 million to US\$112 million.



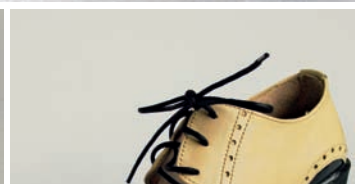
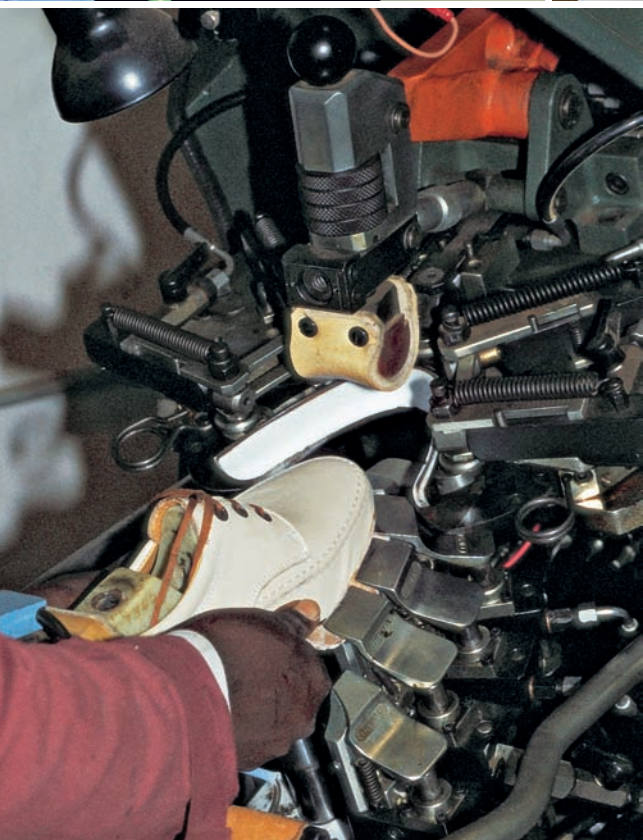
A fundamental part of the upgrading programme has focused on the domestic supply of finished leathers. Initially, the direct beneficiaries of assistance were eight tanneries (Dire, Colba, Batu, Walia, Hafde, Addis Ababa, Bahr Dar, and Sheba), while other companies received support largely through services channeled through the Leather Industry Development Institute. The purpose was not only to increase value addition in tannery operations, a very successful effort which has led to a much larger share of the overall production being taken beyond the wet-blue processing stage, but also to ensure the adequate quality and quality consistency of finished leathers.

leather making

The assistance has entailed technical and managerial counseling and training to remove shortcomings related to basic aspects of leather finishing operations such as water and power resources, machinery maintenance, and quality management (chemical formulations, finishing techniques, in-process quality control). Moreover, the introduction of advanced methods of tannery management has been a key objective of the upgrading programme, and several major Ethiopian tanneries have made good progress in such areas as automation, process control equipment, and enterprise resource planning.

Quality certification is an important sales driver and an indispensable tool in export promotion. Modern laboratory facilities have been established at LIDI, and 21 physical and chemical tests for finished leather, shoes and wastewater have been certified to date under the South African National Accreditation System (SANAS).

The ecological footprint of tannery operations is considerable, and its mitigation through cleaner production, effluent treatment and solid waste management is a significant production cost factor. Recently, an ambitious endeavour under the UNIDO programme has been the development of a blueprint for a comprehensive solution: The establishment of a common effluent treatment plant (CETP) for a cluster of existing and relocated tanneries at Modjo. A visit by Ethiopian experts to Santa Croce sull'Arno in Italy, where a state-of-the-art CETP is servicing a large number of tanneries, was followed in late 2011 by a workshop in Addis Ababa attended by government officials as well as Ethiopian and international experts. Subsequently, UNIDO was requested to carry out a feasibility study and to outline various modular ETP and CETP scenarios. In addition, upgrading plans have been prepared for primary and secondary effluent treatment facilities at tanneries whose relocation is geographically not feasible.



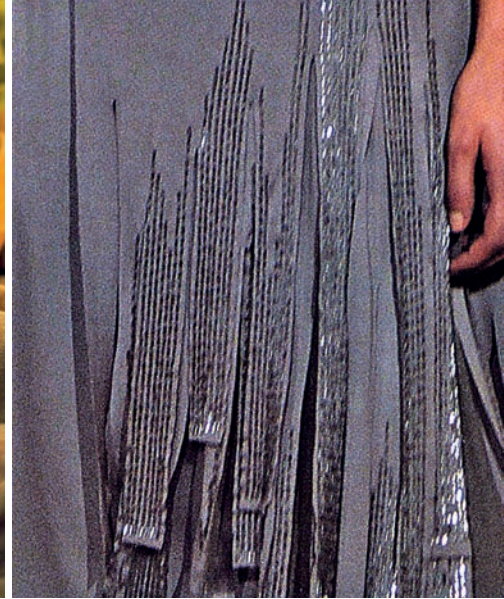
Shoe manufacturers have been the main beneficiaries of UNIDO assistance delivered according to the “top-down (pull) approach.” The upgrading programme has involved both large mechanized factories and clusters of small enterprises in the informal sector and has included training, reengineering, design improvements, the creation of outsourcing opportunities, the introduction of enterprise resource planning (ERP) systems, publicity tools and campaigns, quality certification, and export promotion.

footwear

A major obstacle in the development of the Ethiopian footwear industry was the absence of domestic suppliers of components, which had led to a total vertical integration of production at the large mechanized manufacturers. Smaller companies specialized in such production areas as sole manufacturing, upper making or shoe assembling can increase cost efficiencies and create a competitive advantage for the industry as a whole. Following a feasibility study, UNIDO and its partners decided to upgrade Mampo, a manufacturing facility of Anbessa Shoe Share Company, which is now capable to turn out between 500 and 800 pairs of shoe uppers per day. The new facility helps improve productivity at both large shoe factories and small informal enterprises and is expected to encourage the latter to become themselves suppliers of shoe components.

Launched in June 2009, an effort to upgrade the managerial and technical capabilities of all actors in the Ethiopian leather sector focused on the footwear industry with emphasis on the manufacture of shoe uppers. The immediate objective was to improve the performance of selected footwear companies related to such aspects of supply chain management as lead times, management of production materials, inventory levels, and production costs. It was established that one centerpiece of the upgrading campaign had to be the introduction of an ERP system, and the software selected was ERP Fashion developed and customized by the Italian company ACCORD for Anbessa, where the pilot implementation was carried out. Moreover, with UNIDO support, LIDI developed an ERP system of its own, which is already in use at several firms, such as Peacock Shoe Factory, Tikur Abay, and the Ethio Footwear Cluster in Yeka.

Significant progress has been made in the endeavour to facilitate footwear exports in general and access to the East Africa regional market in particular. Quality certification is an important factor in this respect, and Intertek International, a certification body, has been involved as provider of certificates of conformity following confirmation of tests carried out at LIDI. Encouraging initial results include an order of 12,000 pairs from BATA to Peacock, and 1,000-pair orders to Anbessa, Sheba Leather Industry, and OK Jamaica Shoe Factory. BATA has also expressed its intention to import annually into Kenya an average of 200,000 pairs valued at approximately US\$2 million.



In the early 2000s, several Ethiopian small and medium-size manufacturers were doing well catering to the growing domestic demand for leather garments. The challenge was to gain a foothold in foreign – preferably European – markets. Under the upgrading programme implemented by UNIDO, a benchmarking study carried out in 2008 and covering 17 companies provided the basis for assistance interventions at selected enterprises, such as Genuine Leather, Almada, Ma Industries, and Novostar, which were to serve as role models for the industry.

garments

Skill development was a primary objective in the pursuit of both product quality and a broad-based development of the industry. A training programme hosted by LIDI had as beneficiaries both LIDI instructors and employees of leather garment manufacturers. UNIDO experts prepared a training manual, which is being used by the Institute as the basis of its intensive courses in pattern making, cutting, assembling and stitching.

Equal attention has been paid to the creative side of garment manufacturing. Fashion trend awareness, design research and material selection were among the subjects of courses held initially at LIDI under the guidance of a UNIDO design expert. At a later stage, several companies (Abyssinia, Zebra, Unity, Wossi, and Lion) participated in a workshop which produced a high-quality leather garment collection. A report on the workshop activities was prepared in a manner that ensured its usefulness as a manual. Moreover, the collection was later presented in several European countries.

A special promotional publication issued by the prestigious Italian trade magazine ARSsutoria and dedicated to the Ethiopian leather industries featured prominently women's and men's jackets and vests manufactured by Genuine Leather Craft, Eth. Sung Bin Leather Garment Factory, and Modern Zege Leather Products.



Economic activities associated with a country's cultural heritage can be an important instrument of growth especially for small and medium-size enterprises. It was this rationale that inspired a remarkably successful endeavour under the UNIDO programme: The incorporation of traditional Ethiopian motifs into designs of leather accessories. The groundwork was done by a LIDI-based specialized unit assisted by an international expert. They selected designs of traditional Ethiopian artifacts and a variety of raw materials (in addition to leathers) such as fabrics, metals and beads, and subsequently held workshops to improve the skills of local designers.

leather accessories

Twelve small enterprises participated in the development of a collection of mostly women's bags and labeled Taytu – Made in Ethiopia. Market research focused on the demand for high-end leather accessories in Europe and North America, and an intensive advertising campaign culminated in June 2006 with the presentation of collection samples at a special promotional event in London. An article in *The Times* echoed the “very positive initial reaction” of designers and department stores to the ingenious range of leather bags, wraps, sandals and jewelry. Under the title *UN fashions ethical accessories*, the article praised UNIDO for helping “develop the first fair-trade luxury accessories label.” Later that year, the Taytu promotional collection was showcased at *Premiere Classe*, the prestigious accessories trade show in Paris, and came away with US\$25,000 worth of preliminary orders placed by big-name fashion retailers in London, Paris, Milan, Tokyo and New York. *Trade Forum International* magazine hailed the “decorative, colourful accessories” as a “unique blend of ethnic and sophisticated modern design.”

The next chapter in the “Made in Ethiopia” story started in 2009 when several companies (Jonzo, GLG, and Endu among them) set out to develop specific lines of women's bags and other accessories with low-profile ethnic motifs, products intended to have a wider appeal both in African countries and in selected overseas markets. A study tour during the Moscow Mosshoe Trade Fair in March 2011, where Ethiopian company managers and LIDI instructors visited shopping centers and retail chain stores, yielded valuable marketing insights. Subsequently, UNIDO design and marketing experts guided several manufacturers in the development of basic collections. The new products, bags, gloves as well as footwear, were presented at Mosshoe 2012 and were well received by prospective buyers. The economic success of this project will contribute significantly to the endeavour to meet other important development objectives: The viability of small enterprises, and skill development and employment opportunities for women.



For more information, please contact:

Agribusiness Development Branch
United Nations Industrial Development Organization
P.O. Box 300, 1400 Vienna, Austria
Telephone: (+43-1) 26026 4813. Fax: (+43-1) 26026 6849
E-mail: A.Calabro@unido.org





UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria

Telephone: (+43-1) 26026-0. Fax: (+43-1) 26926-69.

E-mail: unido@unido.org Internet: <http://www.unido.org>