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THE ETHIOPIAN LEATHER AND LEATHER PRODUCTS SECTOR OVERVIEW, CHALLENGES, OPPORTUNITIES & FUTURE OUTLOOK-A REVIEW OF LITERATURE

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ABSTRACT

The Ethiopian leather and leather products sector is a cornerstone of the nation's manufacturing industry, holding significant potential for economic transformation. This overview provides a holistic analysis, underscoring its critical role in industrial growth, export diversification, and employment generation. Historically, the sector has been a top non-agricultural export, contributing notably to GDP (Gross Domestic Product) and foreign exchange earnings. Its value is amplified through substantial employment and value addition, providing jobs across the entire value chain from livestock husbandry and hides and skins collection to sophisticated manufacturing and retail. Despite its potential, the sector faces profound challenges. These include low productivity in animal husbandry, resulting in poor raw material quality, limited domestic value addition, reliance on imported inputs, manufacturing inefficiencies, and fluctuating global demand. However, these are counterbalanced by considerable opportunities. Ethiopia's vast livestock population, competitive labor costs, and growing domestic market present a strong foundation for expansion. Market analysis reveals significant potential to shift from exporting raw materials to high-value finished products in lucrative international markets. Realizing this potential is heavily influenced by government policies, which have evolved from state-led control to more supportive, market-oriented interventions aimed at encouraging investment and promoting exports. The sector's future hinges on strategic vision for transformation, requiring a coordinated effort to improve raw material quality, embrace technological modernization, strengthen linkages, build international brands, and leverage trade agreements. By addressing its constraints and capitalizing inherent advantages, the Ethiopian Leather and leather Products sector can transition into a globally competitive, value-added manufacturing hub, thereby making an even greater contribution to national economy.

KEYWORDS:- Ethiopia, leather, leather products, opportunities, challenges.

1. INTRODUCTORY OVERVIEW TO THE ETHIOPIAN LEATHER AND LEATHER PRODUCTS SECTOR

The Ethiopian leather industry is a cornerstone of the country's manufacturing sector, historically recognized for its potential to drive industrialization, generate export earnings, and create significant employment. The sector's foundation is built upon Ethiopia possessing one of the largest livestock populations in Africa and among the top ten globally, providing a substantial raw material base of hides and skins. This abundant resource, coupled with a relatively low-cost labor force, has long positioned the industry as a strategic priority for the Ethiopian government, aiming to move the economy up the value chain from exporting raw materials to exporting high-value finished products (Gebreeyesus & Sonobe, 2012).

Despite its rich resource endowment and strategic importance, the sector faces a persistent challenge known as the "value addition gap." For decades, a large portion of Ethiopia's leather exports consisted of semi-processed (crust and wet-blue) leather, capturing only a fraction of the potential value available from finished goods like footwear, garments, and leather accessories. This gap is attributed to a complex set of interrelated constraints, including limitations in technical and operational capabilities, inadequate quality of raw hides due to poor animal husbandry and pre- and post-slaughter defects, inconsistent supply of utilities like water and electricity, and underdeveloped domestic linkages with related industries such as chemicals and components (Oqubay, 2015).

In response to these challenges, the Ethiopian government has implemented various industrial policies and strategies over the years. A significant intervention was the imposition of an export ban on raw hides and wet-blue leather, followed by an increasing export tax on semi-processed crust leather, designed to incentivize domestic production of finished leather products. Furthermore, the establishment of industrial parks, such as the flagship Hawassa Industrial Park, which includes dedicated sheds for leather product manufacturers, represents a major infrastructural investment aimed at creating economies of scale, improving efficiency, and attracting foreign direct investment (FDI) to bring in capital, technology, and market access (Whitfield et al., 2020).

The future trajectory of the Ethiopian leather sector is at a critical juncture. While policy measures have successfully spurred growth in the export of finished products, particularly footwear, global competition remains intense. The industry's long-term sustainability and competitiveness hinge on overcoming deep-rooted issues in the raw material value chain, enhancing the skills of the workforce, adopting advanced technologies, and effectively integrating into global value chains. Success will require a coordinated effort between the government, private sector, and international partners to fully realize the sector's potential as a key driver of structural transformation in the Ethiopian economy (UNIDO, 2017).

The objective of this paper therefore is

- To pinpoint the opportunities and difficulties of the leather and leather products sector and indicate way forward for its development;

2. SECTOR IMPORTANCE

Hides and skins have been economically significant for centuries, serving as essential raw materials for various industries. They are primarily used in the production of: Clothing (leather and wool); *Gloves* (leather); *Shoes* (leather); *Furniture* (leather); *Blankets* (wool); *other industrial and traditional applications.* In Ethiopia, hides and skins are crucial byproducts of livestock production, contributing significantly to the national economy. The primary sources of these materials are cattle, sheep, goats, and pigs (FAO, 2019). The Key Economic Benefits of Hides and Skins are; Raw Materials – They serve as essential inputs for leather and textile industries; Foreign Exchange Earnings – Ethiopia exports processed and semi-processed hides and skins, generating substantial foreign currency (UNIDO, 2020); Employment Generation – The leather and tanning industries provide jobs for thousands of people in processing, manufacturing, and trade; Renewable Resource – Unlike synthetic materials, hides and skins are sustainable byproducts of livestock farming; Traditional Uses – In many cultures, hides and skins are used for traditional clothing, ceremonial items, and household goods (ILRI, 2018).

2.1. Direct Contribution

The leather and leather products sector is a designated priority manufacturing sub-sector under Ethiopia's Growth and Transformation Plans (GTP I and II). Its direct value addition to the national GDP is typically reported as a percentage of the Manufacturing Sector's GDP rather than the total GDP. Historical Contribution: During its more productive periods, the sector contributed significantly to the manufacturing output. For instance, it was reported that the leather and leather products industry accounted for approximately 14.5% of the total manufacturing output in the early 2010s (MoTI, 2014). Recent Performance: More recent data indicates a decline. The sector's contribution to the manufacturing GDP has fallen. A study by the Policy Studies Institute (PSI) indicated that its share had dropped to around 3.4% of the manufacturing GDP by 2018/19, reflecting the various challenges the sector has faced, including raw material quality, policy shifts, and global market conditions (PSI, 2020).

2.2. Contribution through Export Earnings

Hides and skins have historically been a major source of foreign exchange for Ethiopia. While they currently rank as the fourth-largest export commodity after coffee, *chat*, and oilseeds they were the second-highest foreign currency earner during the 1980s and 1990s (CSA, 2011). In 2011, Ethiopia generated 139.28 million USD from the export of processed leather products, including finished leather, footwear, garments, and gloves (CSA, 2011). *However*, *this figure saw a sharp decline*, *with exports dropping to approximately* 28.6 million USD in 2021, primarily consisting of raw hides and leather (LIDI, 2021). This significant reduction has been attributed to multiple challenges within the subsector, including structural inefficiencies, production limitations, poor information exchange, quality issues, and financial constraints (MoA, 2022; Gebremariam, 2023).

2.3. Indirect and Induced Contributions (Employment and Value Addition)

2.3.1. Global and Regional Employment

The sector employs millions of people worldwide. According to the United Nations Industrial Development Organization (UNIDO), the global leather and footwear industry is estimated to employ over 4 million people directly; with millions more in associated trades like retail and transportation (UNIDO, 2019). However, this figure is likely a significant underestimate when informal and artisanal production is considered.

Asia: - is the dominant hub, with China, India, Bangladesh, Pakistan, and Vietnam being major employers. India: A study highlighted that the Indian leather industry is one of the top ten foreign exchange earners and employs about 4.42 million people, a large share of whom are from socially weaker sections (CLE, 2021 as cited in various reports); Bangladesh: The leather sector is the second-largest export earner for Bangladesh after ready-made garments. It employs over 850,000 people directly and

indirectly (BTA, 2022); Africa: The sector is also vital in countries like Ethiopia, which has positioned itself as a major leather exporter, employing over 52,000 people directly (LIDI, 2020); Europe: While Much of the mass production has moved to Asia, but Europe has retained high-value, luxury manufacturing, particularly in Italy, Spain, Portugal, and France. This shift has allowed Europe to focus on sectors like automotive and luxury fashion, employing a highly skilled workforce that emphasizes design, craftsmanship, and engineering (Frankel, 2021). This model of production leverages Europe's historical strengths in artisanship and innovation to maintain a competitive edge in a globalized economy (Mandel, 2020).

2.3.2. Nature of Employment

Employment is generated across the value chain: (1) Raw Material Stage: Animal husbandry, hide collection, and trading;(2)Tanning and Processing: This is capital-intensive but still requires a substantial workforce for machine operation, chemical processing, and quality control (3) Product Manufacturing (Footwear, Garments, Goods): This is the most labor-intensive stage, involving cutting, stitching, assembling, and finishing. It provides the bulk of employment in the sector (4) Design, Marketing, and Retail: High-value roles concentrated in developed countries and brand headquarters (ILO, 2019; UNIDO, 2010).

2.3.3. National Employment

The hide and skin industry in Ethiopia has significant potential to generate employment due to its labor-intensive nature and its position as a key economic sector. According to LIDI (2019), the industry contributes substantially to the economy and can create jobs across its value chain from raw material collection to processing and export (LIDI, *Annual Report*, 2019) for about approximately 30,000 to 50,000 laborers, including skilled and unskilled workers (LIDI, 2018). The FAO highlights that the leather industry, including hide and skin processing, can create significant job opportunities, particularly in tanning, finishing, and manufacturing (FAO, 2019).

Further, a study by Gebremariam (2020) emphasizes that Ethiopia's abundant livestock resources provide a strong foundation for the hide and skin sector, and with proper investment in value addition, the industry could employ thousands of workers, particularly in tanning and finished leather production (Gebremariam, 2020).

The International Trade Centre (ITC) (2021) also highlights that Ethiopia's leather and leather products sector has the capacity to expand employment opportunities, especially for semi-skilled and skilled laborers, if supported by improved technology and market access. Thus, with strategic policy support and investment, the hide and skin industry could indeed become a major source of employment in Ethiopia.

2.3.4. Challenges for Employment

Informality: A large portion of employment, particularly in developing countries, is in the informal sector, characterized by job insecurity, low wages, and poor working conditions (ILO, 2020); Occupational Hazards: Workers are exposed to chemicals, unsafe machinery, and ergonomic issues, necessitating stronger regulatory frameworks; Automation: The adoption of automated cutting and sewing machines poses a long-term risk to traditional employment, especially in footwear assembly (World Bank, 2018).

2.3.5. Value Addition in the Leather and Leather Products Sector

Value addition refers to the increase in the value of a product at each stage of production. The LLP sector has a unique and often challenging value addition trajectory.

A. The Value Chain and Its Disparities

The value chain progresses from raw hides/skins (low value) to finished consumer products (high value).

Raw Hides/Skins: Minimal Value and Perishable

Raw hides and skins are a by-product of the meat industry. Their value is low because they are bulky, heavy, and highly perishable. If not processed quickly (salted, dried, or chilled), they decompose and become worthless. This creates a weak bargaining position for primary producers, who must sell quickly to avoid total loss. Improper handling at this stage leads to major defects, destroying up to 5% of the material's value before it even reaches the tannery (UNIDO, 2010).

Crust and Finished Leather: Significant but Limited Value Addition

Tanning (converting raw hides into stable, non-perishable leather) adds significant value through chemical processing, labor, and capital investment. "Wet-blue" is the semi-processed, chromium-tanned stage that is stable for storage and transport. "Crust" leather is dried and ready for finishing. While this stage is technically complex and adds value, it is considered a commodity business. Tanners compete on price, efficiency, and scale, leading to relatively thin profit margins compared to finished goods manufacturers (FAO, 2018).

Finished Products: Capturing the Highest Margin

The final stage (manufacturing footwear, bags, apparel, etc.) captures the largest share of the end-consumer price. The value is no longer in the physical transformation of the material but in intangible assets: innovative design, advanced functional engineering (e.g., moisture-wicking, impact protection in athletic shoes), powerful branding, global marketing campaigns, and retail distribution. A brand's reputation allows it to command a premium price far exceeding the cost of materials and labor(Gereffi, 1999).

Central Issue: Capturing a Small Fraction of the Final Price

This is the crux of the problem for producing countries. They remain integrated into the global economy primarily as suppliers of low-value-intermediate goods or contract manufacturers for high-value brands, capturing only a tiny fraction of the total value created. *Example:* The International Trade Centre (ITC) provides concrete data on this disparity. Their analysis shows that while *Italy* (a country known for high-value finished goods) exported leather shoes with an average value of *$90-100 per pair* in the 2010s, *Vietnam* (a major producer for contract manufacturing) exported shoes at an average value of *$15-20 per pair*. The physical shoe may be similar, but the branded retail product sells for multiples of the export price (ITC, 2016).

The East African Community (EAC) has specifically identified this as a key developmental challenge. A report notes that member countries export raw hides and wet-blue leather, missing out on the significant value addition from finished goods. It states, "*The region continues to export over 90% of its leather in the form of raw hides and wet-blue... thereby losing potential revenue from further processing estimated at over US$200 million annually*"(EAC, 2013).

B. Strategies for Enhancing Value Addition

Countries are actively pursuing strategies to move up the value chain: Vertical Integration: Encouraging tanneries to also manufacture finished goods to retain more value domestically. Ethiopia's policy to incentivize finished product exports over semi-processed leather is a prime example (Lange et al., 2020); Investment in Design and R&D: Developing domestic design capabilities and technological innovation to create unique, high-quality products that can command premium prices. Italy's "Distretto della Pelle" (Leather District) is a benchmark, where clusters of expertise foster innovation and quality (UNIDO, 2019); Branding and Marketing: Building strong national and product brands to escape the cycle of being a low-cost contract manufacturer(WIPO, 2017); Compliance with International Standards: Adhering to environmental and social standards (e.g., ISO, LWG - Leather Working Group certification) is increasingly a prerequisite for accessing high-value markets in the EU and North America(European Commission, 2022).

C. Quantitative Measures of Value Addition

The Economic Complexity Index (ECI**)** reveals that products like finished leather goods and footwear are more complex and valuable than raw materials (OEC, 2023). UNIDO data shows that the export value of finished leather products (e.g., travel goods) per unit is multiples higher than that of raw hides (UNIDO, 2019).

3. The Processing and Manufacturing Landscape of the Ethiopian leather and leather products sector

The Ethiopian leather industry is a strategically important sector, endowed with the largest livestock population in Africa, which provides a substantial raw material base. The sector has historically been a significant source of foreign exchange, second only to coffee, and a major source of employment. However, its potential remains largely untapped due to a complex set of challenges spanning from raw material quality to manufacturing and export markets (Gebreeyesus & Sonobe, 2012; UNIDO, 2015).

The landscape can be divided into two main segments: Leather Processing (Tanneries) and Leather Products Manufacturing (Footwear, Garments and Goods).

3.1. The Leather Processing (Tanning) Landscape

The tanning sub-sector converts raw hides and skins into finished leather, which is either exported as semi-finished or finished leather or supplied to local manufacturers.

3.1.1. Structure and Capacity

The sector is dominated by a few large-scale tanneries, with a larger number of small and medium enterprises (SMEs). Most tanneries are concentrated in and around Addis Ababa, Modjo, and Dire Dawa, benefiting from proximity to infrastructure and livestock markets (MoI, 2020).

3.1.2. Processing Technology and Value Addition

Historical Focus on Crust: For decades, the industry focused on exporting semi-processed "wet-blue" (chromed tanned) and "crust" leather, capturing minimal value. This was due to a lack of technical capability, chemical inputs, and reliable water/energy supply for finishing (Oqubay, 2015).

Shift to Finished Leather: Government policy, notably the Export Tax Incentive Scheme, has actively discouraged the export of semi-finished leather (imposing high taxes on it) and encouraged the export of finished leather and products (with zero or low tax). This has pushed tanneries to invest in finishing lines (Oqubay, 2015).

Technical Challenges: Despite progress, many tanneries still face issues with consistent quality of finished leather due to variations in raw material, outdated machinery in some older plants, and inefficiencies in chemical and water use (Mekonnen et al., 2017).

3.1.3. Environmental Compliance

Tanning is a highly polluting process. Environmental compliance is a significant challenge. While larger tanneries have constructed Effluent Treatment Plants (ETPs), often with international support, their operation and maintenance are costly. Smaller tanneries struggle significantly with waste management, leading to environmental pollution (UNIDO, 2015).

3.2. The Leather Products Manufacturing Landscape

This segment uses finished leather to produce goods, primarily footwear, but also leather garments, gloves, bags, and other accessories.

3.2.1. Dominance of Footwear

The footwear industry is the largest consumer of domestic leather. It includes both a massive, informal sector producing low-quality shoes for the domestic market and a growing formal sector focused on higher-quality domestic and export markets (Lidet, 2018).

3.2.2. Technological Capability and Production

Informal Sector: Characterized by micro-enterprises using manual, labour-intensive methods with very simple tools. Quality and productivity are low, but they are highly adaptive to local market demands (Sonobe et al., 2011). Formal Sector: Includes larger factories like Peacock, Anbessa, and George Shoes, as well as foreign-owned export-oriented plants (e.g., from China, Turkey, India). These factories use assembly-line production, imported machinery, and more standardized processes. However, even in the formal sector, automation is limited compared to international competitors (Sonobe et al., 2011). The Ethiopian footwear firms according these authors, exhibit major gaps in manufacturing capabilities, particularly in areas of design, lasts making, and consistent clicking (cutting), which affects quality and export competitiveness.

3.2.3. Design, Product Development, and Market Linkage

A critical weakness has been the lack of design and product development capabilities tailored to export market trends (e.g., European fashion trends, sizes, and specifications). Manufacturers have traditionally produced for an undifferentiated market or relied on buyers' provided designs. Limited design capability and market intelligence are binding constraints for Ethiopian leather product manufacturers seeking to enter high-value export markets (World Bank, 2017).

3.3. Cross-Cutting Challenges Affecting the Entire Landscape

3.3.1. The Raw Material Challenge

This is the most frequently cited fundamental problem. The quality of raw hides and skins is poor due to: Pre-Slaughter Defects: scratches, branding wounds, and parasitic damage from traditional husbandry practices. Post-Slaughter Defects: poor flaying (skinning) techniques, improper preservation (salting), and inadequate handling and transportation. It is estimated that over 60% of hides and skins produced in Ethiopia are of low quality, primarily due to pre-slaughter and flaying defects, resulting in low prices and low leather recovery rates (FAO, 2013).

3.3.2. Policy, Incentives, and Infrastructure

Inconsistent Policy: While the export tax strategy is clear, manufacturers often cite bureaucratic hurdles, fluctuating incentive schemes, and delays in importing necessary inputs as impediments. Infrastructure Deficits: Unreliable power supply, water shortages, and poor logistics (e.g., high cost and slow speed of shipping from landlocked Ethiopia) increase production costs and lead times, eroding competitiveness. Infrastructural bottlenecks, particularly in energy and logistics, significantly increase the cost of doing business for Ethiopian leather exporters, negating the advantage of low labour costs (Oqubay, 2015).

3.3.3. Skills and Technology Transfer

There is a significant skills gap at all levels, from technicians and machine operators to designers, merchandisers, and mid-level managers. The Ethiopian Leather Industry Development Institute (LIDI) was established to address this through training and R&D, but its impact is still scaling. The shortage of skilled manpower is a severe constraint, Technical and vocational training institutions are not producing enough graduates with the practical skills required by modern tanneries and footwear factories (MoI & LIDI, 2019).

3.4. Recent Developments and Future Outlook

3.4.1. Foreign Direct Investment (FDI): The arrival of major international footwear manufacturers (e.g., Huajian, George Shoe) brought initial optimism for technology and skills transfer. While their experience has been mixed, they have demonstrated the potential for large-scale export-oriented manufacturing. The Huajian factory provided a proof of concept for large-scale footwear exports from Ethiopia but also highlighted the persistent challenges of infrastructure and skills (Brautigam et al., 2018).

3.4.2. Focus on Value Chain Integration: Ethiopia is increasingly focusing on value chain integration and a shift in industrial strategy within its leather sector. This is evidenced by the development of integrated "leather cities" or clusters, such as the Modjo Leather City. These industrial parks are designed to co-locate tanneries, manufacturers, and support services to improve efficiency and reduce costs by creating an industrial symbiosis (UNIDO, 2018).

This initiative aligns with a broader government policy to move away from exporting semi-processed leather and instead attract end-product manufacturers to produce high-value products like footwear, gloves, and handbags. The goal is to better capture value and increase the country's export earnings (UNCTAD, 2018; CBI, 2019). The government has implemented various policies, including export taxes on unfinished leather, to incentivize this shift and promote the development of a more robust domestic manufacturing industry (CERNA, 2016).

4. Challenges Facing the Ethiopian Leather and Leather Products Sector and recommendations: (see in the annex)

Table 1.

Challenges and critical recommendations

No	Major Challenges	Critical Recommendations
1	**Poor Quality of Raw Hides and Skins** • High prevalence of defects due to poor animal husbandry, flaying methods, and preservation techniques (Gebremariam, 2018; UNIDO, 2015). • Lack of incentives for suppliers to improve raw material quality (MoTI, 2019).	**Improve Raw Material Quality** • Implement training programs for farmers and flayers on best practices (UNIDO, 2015). • Introduce a grading and pricing system to incentivize better-quality hides (LIDI, 2020).
2	**Inefficient Tanning and Manufacturing Processes** • Outdated machinery and reliance on traditional tanning methods reduce efficiency (USAID, 2017). • Limited adoption of modern technologies such as chrome-free tanning (LIDI, 2020).	**Modernize Tanning and Manufacturing** • Upgrade machinery and promote eco-friendly tanning technologies (USAID, 2017). • Strengthen research and development (R&D) through partnerships with institutions like the Leather Industry Development Institute (LIDI, 2021).
3	**Weak Value Chain Integration** • Fragmented supply chain with poor linkages between tanneries, manufacturers, and exporters (World Bank, 2019). • Inadequate infrastructure for logistics and cold storage (UNIDO, 2020).	**Enhance Value Chain Coordination** • Establish leather clusters to improve linkages between tanneries and manufacturers (World Bank, 2019). • Develop industrial parks with specialized leather processing zones (EIC, 2020).
4	**Limited Access to Finance and Investment** • High cost of capital and lack of credit facilities for SMEs in the sector (AfDB, 2021). • Insufficient foreign direct investment (FDI) in value-added leather products (EIC, 2020).	**Facilitate Access to Finance** • Provide low-interest loans and credit guarantees for SMEs (AfDB, 2021). • Attract FDI through incentives for finished leather product manufacturers (MoTI, 2020).
5	**Export Market Challenges** • Overreliance on semi-processed leather exports rather than finished products (Gebreeyesus & Sonobe, 2012). • Non-compliance with international quality and environmental standards (EU, 2018).	**Boost Export Competitiveness** • Shift focus to value-added products like footwear and leather goods (Gebreeyesus & Sonobe, 2012). • Strengthen compliance with international standards (EU, 2018).
6	**Policy and Regulatory Constraints** • Frequent policy shifts, including export bans on raw hides and crust leather (FDRE, 2018). • Bureaucratic hurdles in customs and export procedures (World Bank, 2020).	**Strengthen Policy and Institutional Support** • Ensure stable and predictable export policies (World Bank, 2020). • Streamline customs and export procedures to reduce delays (FDRE, 2019).

5. Opportunities for Growth and Development of the Ethiopian leather and leather products sector

The Ethiopian leather and leather products sector stands at a critical juncture, with numerous opportunities that can be harnessed to spur industrial growth, boost exports, and generate employment(MoI, (2022).

5.1. Value Addition and Product Diversification

Historically, Ethiopia has primarily exported semi-processed leather, such as wet blue and crust leather. Shifting toward finished products—such as shoes, bags, jackets, and gloves—presents a significant opportunity to capture higher market value and reduce dependency on raw exports (UNIDO, 2021). The global trend toward sourcing finished goods rather than raw materials favors countries with integrated leather value chains **(**UNIDO, 2020**)**.

5.2. Access to International Markets

Ethiopia enjoys preferential access to major markets under agreements like the European Union's Everything But Arms (EBA). These trade incentives, if fully leveraged, can make Ethiopian leather goods more competitive by eliminating tariffs and offering price advantages (MoTI, 2019).

5. 3. Development of Leather Industrial Parks

The government has invested in specialized industrial zones such as Modjo Leather City, designed to centralize processing, improve infrastructure, and enhance supply chain efficiency. These clusters attract foreign direct investment and foster innovation and technology transfer (LIDI, 2020).

5. 4. Technological Advancement and Skills Training

Technology transfer from international partners and enhanced technical training through institutions like the

LIDI can upgrade the quality and productivity of local manufacturers. Improved tanning processes, waste management, and product design are areas ripe for innovation (UNIDO, 2021).

5. 5. Branding and Certification

Establishing a national leather brand, supported by quality certification and traceability systems, could improve Ethiopia's reputation in global markets. A "Made in Ethiopia" label associated with quality and ethical production has the potential to increase consumer demand (LIDI, 2020).

6. Market Analysis and Export Potential of the Ethiopian leather and leather products sector

Ethiopia's leather industry holds considerable export potential, driven by its abundant livestock resources, strategic trade agreements, and growing global demand for quality leather goods. However, the sector's full potential remains underutilized due to structural, operational, and market-related challenges (ITC, 2021).

6.1. Market Structure and Trends

The global leather market, valued at over USD 400 billion, continues to grow, especially in fashion, automotive, and furniture industries (Grand View Research, 2021). Ethiopia's niche lies in its high-quality sheepskin and goatskin, known for their fine grain and softness, making them ideal for premium leather products (LIDI, 2020). Domestically, the Ethiopian market is relatively small and price-sensitive. However, there is a steady rise in demand for quality leather footwear and accessories among the growing middle class. Internationally, key export destinations include Italy, China, India, Germany, and the United States (UNCTAD, 2021).

6.2. Export Performance

Ethiopia exports both semi-processed and finished leather products. According to LIDI (2020), leather and leather products account for about 5% of the country's total manufacturing exports. The sector has seen fluctuating performance due to global price volatility and internal production constraints. The footwear sub-sector leads in value-added exports, followed by leather gloves and garments. Companies such as *Huajian* and *Anbessa Shoe* have contributed significantly to increasing foreign currency earnings (MoTI, 2019).

6.3. Trade Agreements and Preferential Access

Ethiopia benefits from preferential trade agreements, notably: Everything But Arms (EBA) – allows tariff-free exports to EU countries, OMESA and AfCFTA (African Continental Free Trade Area) – provide access to regional African markets. These agreements create a competitive edge if Ethiopian manufacturers can meet quality, volume, and delivery standards (UNIDO, 2021).

6.4. Barriers to export growth

6.4. 1. Supply-Side and Raw Material-Related Barriers

The problems begin at the very source of the value chain—the supply of raw hides and skins. Poor Quality of Raw Hides and Skins: A significant portion of hides and skins are damaged by pre-slaughter defects (e.g., branding, scratches, wounds from poor handling) and post-slaughter defects (e.g., poor flaying, preservation, and storage practices). This results in a low recovery rate of high-quality leather, making products less competitive internationally (Gebreeyesus, 2011; Bekele and Yismaw, 2017).

Inadequate and Inefficient Supply System: The collection system for raw hides and skins is fragmented and dominated by middlemen. This leads to an opaque pricing mechanism and inconsistent supply for tanneries (UNIDO, 2010).

6.4. 2. Production and Technological Barriers

Outdated Technology and Lack of Innovation: Many tanneries and manufacturers use outdated machinery and processes. This leads to low productivity, high production costs, and an inability to meet the stringent quality and consistency demands of high-value international markets (especially in footwear and garments) (Oqubay, 2015; Zewdie, and Worku, 2018).

Limited Product Diversification and Design Capability: The sector has historically focused on exporting semi-processed (crust and wet-blue) leather and low-value finished products like gloves. There is a critical shortage of skilled designers, technicians, and engineers needed to produce high-value finished products like modern footwear, bags, and garments that are in demand globally (Sonobe et al., 2011).

6.4. 3. Policy, Regulatory, and Infrastructural Barriers

The Export Tax on Raw Hides and Semi-Processed Leather: While the government's intention with this policy was to incentivize domestic value addition by banning the export of raw hides and taxing semi-processed leather, it has had unintended consequences. It created a captive, low-quality domestic supply for tanneries, reducing the pressure to improve raw material quality and, at times, leading to oversupply and low prices for lower-tier tanneries (Whitfield et al., 2020; Cusolito and Maloney, 2018).

Inadequate Industrial Infrastructure: Unreliable power supply, water shortages, and poor logistics (e.g., inefficient customs clearance, high freight costs) increase the cost of doing business and reduce reliability for international buyers (World Bank, 2020).

Access to Finance: Firms struggle to access affordable long-term credit needed to invest in modern machinery, technology upgrades, and workforce training. High-interest rates and collateral requirements are significant hurdles,

especially for small and medium-sized enterprises (SMEs)(MoFEC, 2018).

6.4. 4. Market and Linkage Barriers

Weak Linkages to Global Buyers and Markets: Ethiopian leather firms have limited direct access to leading international brands and retailers. They often rely on intermediaries, which reduces their profit margins and isolates them from vital market intelligence on trends, quality standards, and consumer preferences (Azmeh and Nadvi, 2013).

Compliance with International Standards: Meeting stringent international standards (e.g., ISO, REACH for chemicals) and buyer-specific codes of conduct (e.g., on environmental sustainability and labor practices) requires significant investment, which many Ethiopian firms find challenging (UNCTAD, 2016).

7. Government Policies and Initiatives: of the Ethiopian leather and leather products sector

The Ethiopian government has implemented several key policies and initiatives to develop its leather and leather products sector. The primary goal is to shift the industry's focus from exporting low-value, semi-processed hides and skins to manufacturing high-value finished products, which would increase export earnings and create more jobs.

7.1. Value Addition and Export Taxes

The government has used fiscal policy to encourage value addition. A significant measure was the imposition of a 150% export tax on raw hides, skins, and semi-processed leather starting in 2008 and on crust leather in 2012. This "carrot-and-stick" approach was designed to make the export of raw materials less profitable, thereby incentivizing domestic tanneries and manufacturers to produce finished goods (Fitawek & Kalaba, 2016). This policy successfully shifted exports from raw materials to finished products, though it also posed challenges for some local tanneries.

7.2. Industrial Parks and Infrastructure Development

To support the growth of the manufacturing sector, the government has invested in developing specialized industrial parks or clusters, such as the Modjo Leather City. These parks are designed to co-locate tanneries, manufacturers, and support services to improve efficiency, facilitate technology transfer, and ensure environmentally sustainable practices. They often include shared facilities like zero-liquid-discharge treatment plants to manage the sector's environmental impact (UNIDO, 2018).

7.3. Institutional Support and Capacity Building

The government has established institutions to provide technical and research support to the sector. The Leather Industry Development Institute (LIDI), a government-mandated institute, is at the forefront of this effort. Its mission is to improve the industry's competitiveness through training, technology transfer, and quality management (ALLPI, 2016). The government also collaborates with international partners like the United Nations Industrial Development Organization (UNIDO) on projects aimed at improving skills, promoting employment, and enhancing the environmental and social performance of the industry.

7.4. Foreign Direct Investment (FDI) Promotion

Ethiopia has actively sought to attract foreign investment, particularly from countries like China, by offering incentives and a favorable policy environment. The government views FDI as a crucial mechanism for technology transfer and for integrating into global value chains. Foreign firms, such as Huajian and George Shoe, have established manufacturing hubs in Ethiopia, contributing to job creation and production capacity (Ethiopian Investment Commission, 2023).

8. The Future of Ethiopia's Leather and Leather Products Industry: A Vision for Transformation

The future of Ethiopia's leather and leather products industry is based on a vision of transforming from a raw material exporter to a global center for high-value finished goods. This strategy aims to leverage the country's huge livestock population and competitive labor costs to increase export earnings and employment. This transformation is being supported by several key initiatives and policies.

8.1. Focus on Value Chain Integration and Industrial Parks

A cornerstone of the vision is developing integrated "leather cities" or clusters, such as the Modjo Leather City. These parks are designed to co-locate tanneries, manufacturers, and support services to improve efficiency and reduce costs. This strategy encourages domestic production of finished goods instead of exporting semi-processed leather (UNIDO, 2018). The government has implemented measures like export taxes on raw hides to incentivize this value-added shift (Fitawek & Kalaba, 2016).

8.2. Quality and Technology Upgrades

The industry's success hinges on improving the quality of raw hides and skins, which has been a persistent challenge due to issues in animal husbandry and collection. The vision includes upgrading veterinary services and promoting modern preservation techniques. Furthermore, the industry is adopting modern, eco-friendly technologies, such as vegetable tanning, to meet international environmental standards and cater to conscious consumers (allAfrica.com, 2024).

8.3. Niche Market and Brand Development

Ethiopia's strategy is to capitalize on its high-quality sheepskin and goatskin, which are known for their fine grain and softness, by focusing on niche, high-value products like premium footwear, gloves, and luxury garments. The creation of a national brand, such as the "Ethiopian Highland Leather" (EHL) label, backed by a robust quality certification and traceability system, is

crucial for building a global reputation for quality and ethical production (ELIA, 2021).

8.4. Attracting Foreign Direct Investment (FDI)

The government is actively promoting Ethiopia as an attractive destination for FDI. Foreign firms, particularly from China, are seen as vital for technology and knowledge transfer and for integrating local firms into global value chains. The government offers incentives and a favorable business environment to attract these investors, who can boost production capacity and create jobs (Ethiopian Investment Commission, 2023).

8.5. Market Diversification

While traditional markets like Europe and the U.S. remain important, the future also involves diversifying export destinations, especially within Africa. The African Continental Free Trade Area (AfCFTA) is seen as a major opportunity to expand into a growing regional market, which can reduce dependency on a few key Western markets and mitigate risks related to trade agreements (UNCTAD, 2023).

9. CONCLUSION AND RECOMMENDATION

9.1. CONCLUSION

The Ethiopian leather and leather products sector stands at a critical juncture. It possesses a strong foundational advantage with Africa's largest livestock population, providing an abundant raw material base. The sector has historically been a cornerstone of the manufacturing industry, making a notable contribution to GDP (Gross Domestic Product), a critical source of foreign exchange through export earnings, and a significant generator of employment across the value chain from husbandry to finished goods.

However, the sector's performance has been hampered by a persistent reliance on the export of semi-processed (crust and finished leather) rather than high-value Finished Leather Products (FLP) like footwear, garments, and leather goods. This limits its export earnings, value addition, and job creation potential. The processing and manufacturing landscape is characterized by challenges including inadequate supply of quality raw hides and skins, outdated technology, gaps in skilled manpower, and inefficiencies in the supply chain.

Despite these challenges, the opportunities for growth and development are substantial. Rising global demand for leather goods, shifting global supply chains, and growing domestic and regional markets present a clear export potential. Government policies and initiatives have recognized this potential, aiming to spur growth through industrial parks, incentives, and sector-specific strategies.

The future vision for transformation is clear: to evolve from an exporter of raw and semi-processed materials into a globally competitive manufacturer and exporter of high-value finished leather products. Achieving this vision requires a concerted, coordinated effort from the government, private sector, and development partners to address systemic challenges and capitalize on the significant opportunities that lie ahead.

9.2. RECOMMENDATIONS

To transform the sector and realize its full potential, the following strategic recommendations are proposed:

- Enhance Raw Material Quality and Supply: by Implementing National Livestock Upgrading Programs and Strengthening Collection and Preservation Systems;
- Drive Value Addition and Product Diversification:-by Enforcing and Incentivizing FLP(Finished Leather Products) Exports and Supporting Product Design and Development;
- Upgrade Technology and Build Capacity: - by Facilitating Technology Transfer and Modernization and Investing in Human Capital Development;
- Improve Market Access and Branding: - by aggressively doing Export Promotion and Developing a "Made in Ethiopia" Brand;
- Strengthen Policy Implementation and Investment Climate:-By Ensuring Policy Consistency; Stability and Targeted FDI (Foreign Direct Investment) Attractions;
- Address Environmental Sustainability: - By Promoting Cluster-Based Manufacturing and Incentivizing Green Technologies;
- Foster Strong Industry Collaboration: - by Strengthening Industry Associations in such a way that by empowering associations like the Ethiopian Leather Industry Association (ELIA) to play a greater role in advocacy, collective bargaining, disseminating market information, and self-regulation among members.

By implementing these recommendations through a coordinated public-private partnership, Ethiopia can successfully transform its leather sector, significantly increase its export earnings, create thousands of jobs, and establish itself as a leading global hub for high-quality leather products.

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