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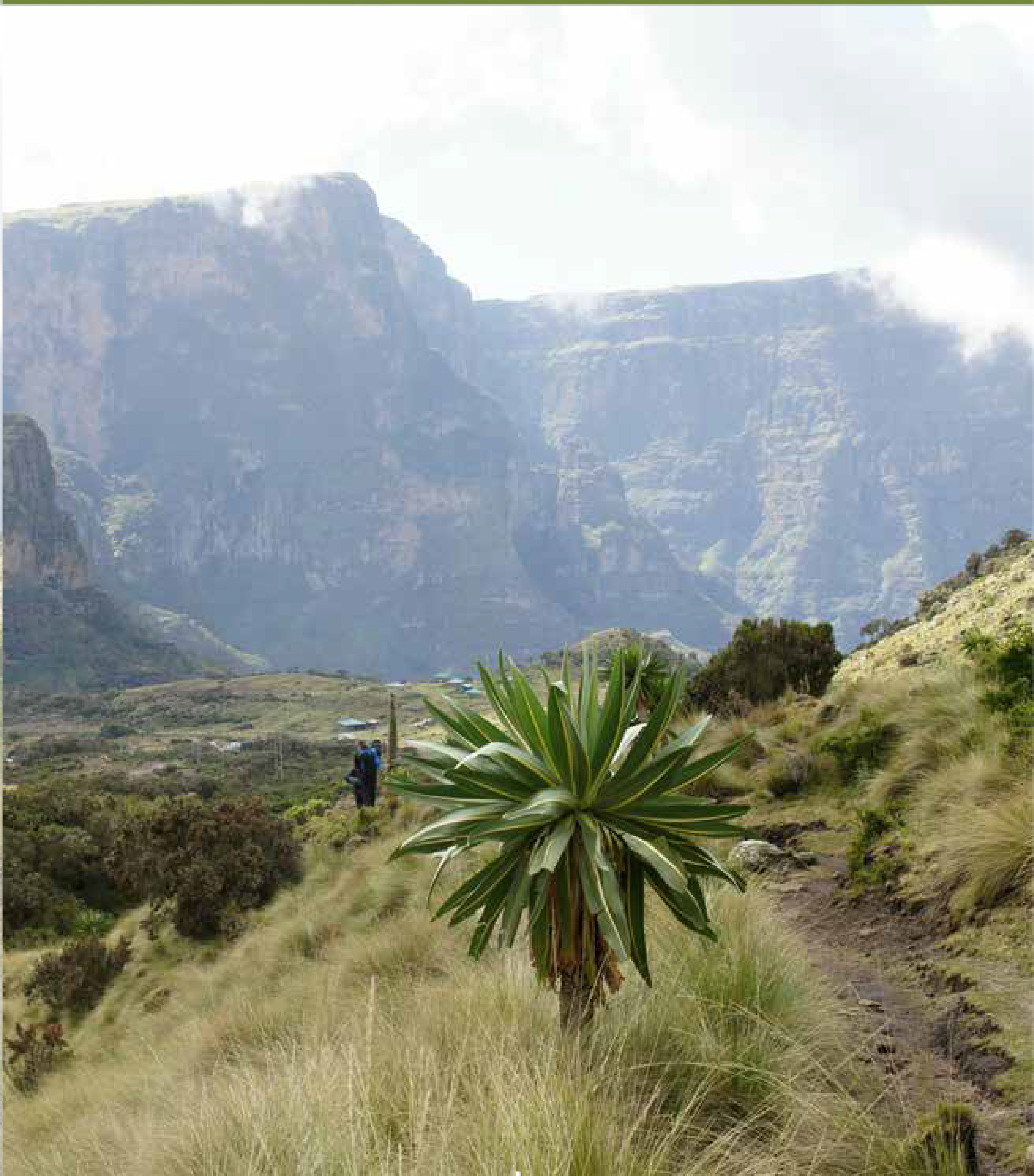
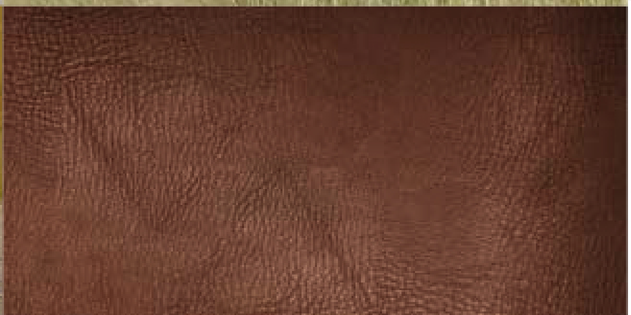
National Green Export Review of Ethiopia: Leather and Sesame Seeds

ETHIOPIA





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Abbreviations

ADLI	Agriculture Development Led Industrialization
AGOA	Africa Growth and Opportunity Act of the United States of America
CSA	Central Statistics Agency
DFQF	Duty Free and Quota Free (market access)
EBA	Everything But Arms Initiative of the European Union
ECX	Ethiopian Commodity Exchange
EIA	environmental impact assessment
ELIA	Ethiopia Leather Industry Association
ERCA	Ethiopian Revenues and Customs Authority
FAO	Food and Agriculture Association
FDRE	Federal Democratic Republic of Ethiopia
FLP	finished leather products
GDP	gross domestic product
GTP-II	Growth and Transformation Plan ()
IMF	International Monetary Fund
ITC	International Trade Centre
LIDI	Leather Industry Development Institute
LLPTI	Leather and Leather Products Technology Institute
MOA	Ministry of Agriculture
MOI	Ministry of Industry
MOT	Ministry of Trade
NEPAD	New Partnership For Africa's Development (of the African Union)
NGER	National Green Export Review
RCA	revealed comparative advantage
RHS	raw skins and hides
SAP	structural adjustment program
SDGs	Sustainable Development Goals
SSA	Sub-Saharan African
SWOT	strengths, weaknesses, opportunities and threats (analysis)
UNCTAD	United Nations Conference on Development and Trade
USAID	United States Agency for International Development
WTO	World Trade Organization

Note

The dollar sign ($) refers to United States dollars.

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EXECUTIVE SUMMARY AND INTRODUCTION

Country profile

A favourable climate, water resources, fertile soils, extensive areas of arable land and high population in rural areas all contribute to making Ethiopia an agrarian country. Agriculture is the mainstay of the national economy counting for around 41.4 per cent of GDP, 89 per cent of total exports and 80 per cent of all employment. Various agro-ecological zones sustain a variety of agricultural exports including: coffee, oil seeds, pulses, flowers, leather and leather products, live animals, meat, fruits and vegetables, textiles, natural gum and spices.

Ethiopia is in accession to be a member of the World Trade Organization (WTO) and is a member of a regional trade group, the Common Market for Eastern and Southern Africa (COMESA) which comprises a market of over 420 million people. Ethiopia also enjoys favourable treatment in major world markets with Duty Free and Quota Free (DFQF) privileges extended by, among others, the United Sates of America under the Africa Growth and Opportunity Act (AGOA); the European Union under the Everything But Arms Initiative (EBA); China through its 'Zero Tariff' scheme; and India which offers substantial DFQF market access. These market access privileges provide Ethiopian exporters with a competitive edge for their products compared to those outside of such schemes, encouraging investors engaged in the agriculture and agro-processing export sector to build production and export capacity in those products where Ethiopia has a natural competitive advantage.

The country has experienced strong and sustainable economic growth path over the last thirteen years, averaging above 10 per cent per year from 2003/04–2014/15 which is more than the average of Sub-Sahara Africa countries' growth rate – about 5.4 per cent – over the same period. Expansion of the services and agricultural sectors accounts for most of the growth, while manufacturing sector performance was relatively modest. To help expand manufacturing activity, the Government is currently implementing the second phase of its Growth and Transformation Plan (GTP-II) which aims to transform the country into a manufacturing hub by 2020.

This report

Applied to the full set of Ethiopia's export data (all exported goods), UNCTAD's Green Product Space methodology[1] was used to quantitatively identify highly competitive green products for which Ethiopia has a revealed comparative advantage in production and export. Coffee, sesame seeds, leather, spices, pepper, cut flowers and bamboo products were identified accordingly. Subsequently, discussions among national stakeholders in national workshops in 2015 and 2017 concluded that the National Green Export Review (NGER) project of Ethiopia should focus on two of these products, specifically green products produced in the 1) leather and leather products sector and 2) the sesame seed sector. Stakeholders considered increased production and export of green products from these sectors would represent the highest market potential in terms of export sales; result in the greatest improvement of local environmental conditions; and would also generate the highest number of new jobs, particularly for the rural poor, women and youth. Accordingly, this report focuses on these two sectors.

The leather sector

The leather and leather products industry has multiple linkages to the wider rural economy. It is also highly labour intensive in its raw material sourcing, transportation, processing and marketing phases. The industry thus possesses enormous potential to create much needed non-agricultural employment, and looks set to play an important role in poverty reduction. Yet this potential has remained largely unexploited. It is beset with far reaching structural problems unique to the leather sector, ranging from unorganized hide and skin collection systems upstream to poor marketing infrastructure downstream. It is not easy for the sector to achieve significant growth without properly addressing these deep rooted problems.

As described in the GTP-II plan, the leather and leather products sector contributes on average about 6-8 per cent of the gross value product of all manufacturing industries. Moreover, according to the same source, the sector contributes about 6 per cent to national GDP and the export of leather products continues to be an important source of foreign currency earnings. In the fiscal year of 2015, records indicate that 22,673 both permanent and temporary jobs have been created in the leather sector. Of this figure, 11,598 are female workers and the remaining 11,075 are male employees. These figures exceed the Government's forecasted target of creating 16,726 new jobs.

The sesame sector

Sesame is the most ancient oil crop adapted to tropic and semi-tropic areas around the world. For Ethiopia, it is the second most important agricultural commodity after coffee in foreign exchange earnings (FAO 2012). However, sesame production in most areas is carried out under traditional production systems associated with low production and productivity of the crop levels.

Ethiopia is one of the main sesame growing and exporting countries in Africa. It has high quality sesame seed varieties suitable for a wide range of applications. Sesame is produced in different areas in Ethiopia. It grows as a major crop in Tigray and Amhara, and in some areas in the Oromia, Beni-shangul Afar and Southern Nations, Nationalities and People. Types of Ethiopian sesame are the Whitish Humera type which enjoys strong demand in world markets, and the darker brown Wellega type for which foreign demand remains high but is lower than Humera type sesame demand.

Key findings

This report reviews global trends in the leather and sesame sectors, their role to the national economy, and Ethiopia's export policy framework, performance, and competitiveness in these sectors. In addition, the report also presents SWOT analysis that indicates remaining challenges and barriers that constrain performance in these sectors.

Major findings on the leather sector:

◊ Ethiopia has a growing absolute advantage in livestock production.
◊ There has been a fluctuating trend in export growth of the leather sector, globally and in Ethiopia. In Ethiopia fluctuations arise in association with supply and quality issues, lack of manpower skills, and unavailability of needed inputs such as chemicals, hides and skins.
◊ China is the major importer of raw hides and skins and major exporter of footwear and leather articles, and it currently is the world's largest leather products exporter.
◊ The major market destinations of raw hides and skins are Italy, China, and Hong Kong, China. Whereas the United States, Germany and Italy are the top destinations for the export of finished leather products and footwear.
◊ The share of Ethiopia's raw hides and skins exports in total exports is substantial whereas the share of leather articles and footwear remains small.
◊ Revealed Comparative Advantage (RCA) analysis shows that Ethiopia has a large comparative advantage in the export of raw hides and skins but not in the export of finished leather products.

Major findings on the sesame sector:

◊ Sesame seed is mainly produced in Asia and Africa which together account for about 95 per cent of the global production.
◊ There were more than 180 countries which participated in world sesame trade during the period 2006-2015 (both suppliers and importers).
◊ Ethiopia is among the top producers and suppliers of sesame seed in the world market.
◊ There has been a fluctuating trend in sesame export growth due to its high dependence on variable rainfall and price volatility in the global market.

◊ China, Israel and Turkey are the top importing partners of Ethiopia.
◊ In Ethiopia the sesame seeds (raw-sesame) account for most all sectoral exports with only an insignificant amount of processed sesame exports. Surprisingly, Ethiopia is a net importer of processed sesame products.
◊ Sesame seed exports have been contributing a double digit share to Ethiopia's total agricultural product exports.
◊ Ethiopia has significantly large comparative advantage in the export of sesame seeds, but it has not yet utilized this advantage to support its success as a competitive producer and exporter of processed sesame products.

General SWOT analysis for both sectors:	
Strengths	**Weaknesses**
• Relatively large supply capacity of unprocessed goods. • Presence of different varieties. • Highly employment oriented sectors. • Strong Government support to improve productivity. • Presence of conducive policy and strategy frameworks.	• Inadaquate processing and value addition. • Limited skills for value-added processing in labour pool; training required. • Poor marketing capability of producers. • Shortage of working capital. • Lack of investors in value added processing.
Opportunities	**Threats**
• Value addition and diversification. • Investment incentives. • Increased foreign exchange earnings. • Strong foreign demand for these products.	• Fluctuation of power supply. • Existence of non-value adding brokers and middlemen with interests in maintaining high levels of unprocessed products. • International price fluctuations (price-volatility).