

Ethiopia's Coffee, Tannery Sectors Have Much Potential for Value Addition

Coffee contributes about 10% of Ethiopia's GDP and is the country's largest export item. The key players in the sector are farmers, the Ethiopian Commodity Exchange (ECX), and exporters. Farmers supply quality coffee types that have very high value in the international market. ECX bridges the gap between exporters and farmers. It has set up warehouses close to the farmers where the new products are stored and cups and classifies different types of coffees according to their origin, grade, and test.

Exporters buy coffee according to origin, test, and grade for export to various markets in Europe, Asia, United States, Australia, Middle East, and other markets in Africa. Exporters are not performing as well as previous years, mainly due to the backward traceability lost from the system, for which some attribute to the introduction of ECX in the system. Previously, exporters had an extensive role in controlling standards and quality but a decoupling between exporters and growers has affected the quality of coffee produced for exports. Firms are undertaking more local processing than in the past to win more international market share but the quality of supply has been questioned. An exception is the Oromia Coffee Farmers Cooperative Union that gives frequent assistance to farmers in various forms. The exporting companies sometimes get assistance from their buyers in the form of training on new technologies. The Commercial Bank of Ethiopia, biggest commercial bank, is presently offering to finance 90% of pre-shipment working capital requirements that coffee exporters require. In order to qualify, exporters must have a record of at least two years in coffee exporting and performance for last year of exporting coffee worth at least US\$ 300,000. The initiative taken is indicative that the government is very keen to scale up coffee exports.

Areas of promise for significant value additions in the coffee sector include provision of agricultural/agronomy services at both growing and harvesting stages, provision of post-harvest services (e.g., storage, transport), and creation of strong linkages between growers and exporters. The latter requires policy support by the government to promote significant expansion of hectares under coffee cultivation, high yields, quantities, and enhancement of qualities. In the last three to four decades, Ethiopia has lagged behind Vietnam and some countries in South America. While Vietnam, for instance, has increased the number of hectares under cultivation from 90,000 ha to 1.3 million ha, that of Ethiopia has remained static. Further value addition in the coffee sector would be difficult, as the industry involves roasting the green coffee collected from farmers. Few exporting firms undertake the roasting process, and international buyers prefer green coffee over roasted coffee.

Government levy forces tanneries to adjust value addition

In the tannery sector, hides and skin suppliers are the key players, supplying tanneries with raw skin that has minimum or no preservative such as salt. Tanneries are currently losing market share as a result of the poor quality of the skin, which often is infected and degraded in the long delivery process. Poor quality skin for further processing also results from bad handling practices before the raw skin reaches the tanneries, and poorly fed animals.

Government recently levied a 150% tax on exports of semi-processed skins, which has pushed almost all tanneries to export finished leather products only. Local processing is increasing as a result, and

the tanneries are adjusting to the new value addition process that has required them to invest in acquisition of new machinery. Very few tanneries provide individual suppliers with advice and chemicals to keep the raw skin in good condition until it reaches them. Very few buyers from the international market come to assist the tanneries to become more competitive. Unlike the coffee sector, no backward expansion has been observed. Value addition is also possible in the production of different products such as shoes, leather gloves, and leather garments, primarily for companies involved in forward linkages.

In both sectors, support by international buyers to assist in adding more value is minimal. Whereas in the coffee sector the introduction of ECX has not been successful, in the tannery sector the government's push toward finished products has been successful. In both sectors, significant gains in value addition reside in the value chains leading to final processing and exporting of the products. The potential for value addition in the tannery section is in the value chain preceding the technical finish line. Policy needs to be crafted to support provision of animal feed, prohibit slaughter in cities and towns at the household level, create strong linkages between tanneries and abattoirs, and deliver veterinary services.

Ethiopia's current strategy is called the Growth and Transformation Plan, which identifies priority sectors, including leather. The government has published policy to increase local value addition directly or indirectly. The key features of this policy are to consider the private sector an engine of the industrial development strategy, implement export-led industrialization, focus on the expansion of labor-intensive industry, implement effective domestic-foreign investment partnerships, have the government play a leading managerial role, and encourage active participation of the public.

Policies Encourage Linkages

Although no incentives are provided to specifically promote upstream and downstream linkages of commodity sectors with other domestic sectors, there are policies that encourage linkages between agriculture and industry. Ethiopia follows an agricultural development-led industrialization policy in which the agricultural sector feeds the industrial sector through its outputs (forward linkage) and the industrial sector develops the agricultural sector by providing market opportunities. The success of the policy is grounded in the managerial role of the government, and linkage is greatly helped by government orientation toward infrastructural development.

However, developments in linkage are limited to those of infrastructure and will need to be further assisted by incentives and other softer means to reach maximum effectiveness. The full involvement of the private sector is also lacking. The Ethiopian government has very good policies in place but lacks implementation capacity. The late Prime Minister Meles Zenawi had indicated that his government is committed to improving implementation capacity. World Bank funded the Ethiopian Competitiveness Facility, together with Ministry of Industry, to increase exports by providing matching grants to exporting companies engaged in the chemicals, leather, textile/garments, and shoe sectors. In addition, trainings are provided through trade associations, such as the Ethiopian Leather Association and the Ethiopian Coffee Exporters Association, and governmental bodies. The range of trainings could be expanded into other types of skill development trainings required throughout respective value chains.

