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Changing the Rules with Evidence, Strategies and Action

Lessons from Our Cotton and Leather Interventions

Enterprise Partners

September 2020

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2013-2020

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Enterprise Partners

EP was established in 2013, funded by the United Kingdom's Foreign, Commonwealth and Development Office (formerly the Department for International Development), to facilitate market systems development in order to create jobs and raise incomes of Ethiopians, especially women, living in poverty. The primary focus was to stimulate agro-industrial growth and access to finance, with the objective to leverage over GBP 300 million in additional investment and sales, create 45,000 jobs, increase the income of 65,000 people, and support 150,000 people to access financial services. EP had to achieve these results in a specific context: where there were very few MSD programmes and at a time when the Government of Ethiopia was only just beginning to embrace the private sector as a development partner who could support the pursuit of the country's industry-focused, export-led growth goals.

Enterprise Partners Case Study Series

Enterprise Partners released a series of case studies in November 2020 to share the progress, lessons and insights of the programme's seven years of market systems development in Ethiopia. This case study forms part of that series.

Case Study Compendium: Insights and Lessons for Driving Market Systems Change for Inclusive Growth in Ethiopia

Enterprise Partners Programme | 2013-2020

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Case Study 1
(Synthesis Paper)

Facilitating Inclusive Growth in Ethiopia:

Think Systemically, Act Strategically, Adjust Frequently for Best Results, Enterprise Partners Programme, 2013-2020

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Case Study 2

Enterprise Partners in Support of Industrial Transformation:

Building an Industrial Labour Services Market in Ethiopia

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Adaptive Management: from the Inside Looking Out:

Managing the Enterprise Partners Market Systems Development Programme in Ethiopia

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Enterprise Partners' Monitoring and Results Measurement system and DCED experience

The case study compendium and standalone studies can be downloaded at **https://enterprisepartners.org**

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ADLI	Agricultural Development Led Industrialization
ARC	Agricultural research centre
BCI	Better Cotton Initiative
C1	Certified Seed generation 1
CF	Contract Farming
CTA	Cotton Textile Apparel interventions from EP
DFID	UK Department for International Development
EP	Enterprise Partners
ETB	Ethiopian Birr
ETIDI	Ethiopian Textile Industry Development Institute
FDI	Foreign Direct Investment
GAP	Good Agronomic Practices
GoE	Government of Ethiopia
GTP	Growth and Transformation Plan
Ha	Hectares
IP	Industrial Parks
LIDI	Leather Industry Development Institute
M4P	Making Markets Work for the Poor
MoA	Ministry of Agriculture
MoI	Ministry of Industry
M4P	Making markets work for the poor
MSD	Market Systems Development
MT	Metric tonnes
NCDS	National Cotton Development Strategy
NSC	National Steering Committee
PPP	Public Private Partnership
SCIE	Sustainable Cotton Initiative Ethiopia
TWG	Technical Working Group

Introduction:
Background and context

Enterprise Partners (EP) has been working in Ethiopia to facilitate market development in a unique environment – a developmental state pursuing economic growth. The context and EP's approach to market systems development (MSD) in Ethiopia unveiled a range of lessons relevant to the MSD approach itself and development more broadly. Within MSD, understanding the context and influencing the role of government to create a more enabling and conducive environment for growth is one of the three pillars of the approach. This case study is part of a series of case studies[1] and presents how EP engaged with government to put in place a more conducive enabling environment for the cotton and leather sectors.

Background to Ethiopia's Strategic Growth Framework

The Ethiopian agricultural sector provides livelihoods for more than 85 percent of the country's 109 million population[2] and anchors the economy. The Agricultural Development Led Industrialization (ADLI) strategy is the overarching development policy of the country. This is based on the utilisation of domestic raw materials through robust agricultural growth and close linkages between the agricultural and the industrial sectors, efficient land allocation and appropriate labour supply to capture increased value addition in country. It focuses on directing high potential but under-utilised land to the production of high value industrial crops, such as cotton, to develop a sustainable local supply chain for an internationally competitive textile and garment industry. Similarly, it is about transforming abundant raw materials into higher value finished goods inside Ethiopia, such as finished leather or leather goods (shoes, jackets, gloves), rather than exporting leather as a raw, low value product. In both cases, integrating rurally-produced goods into dynamic industrially-based export value chains could enhance the incomes of the rural populations, providing more balanced and equitable growth for Ethiopia's population.

The national development strategies pivoted around the government's commitment to moving the nation to middle-income country status by 2025 using the ADLI strategy. The government developed the Growth and Transformation Plan (GTPI) from 2010-2011 to 2014-2015, which was in place when EP started. The second phase of this plan, GTP II, extended out to 2019-2020. The government continued expanding physical infrastructure through public investments to transform the country into a manufacturing hub. The plan was based on the assumption that the manufacturing sector would play a pivotal role in achieving development goals through the mobilisation of foreign investment, creating large numbers of employment and generating foreign currency.

EP was designated by the UK Department for International Development (DFID) to work in a number of priority sectors outlined in the GTP, including the 'Livestock to Leather' and 'Cotton to Garments' sectors. The plan was to integrate expanded raw material production into industrial export products (finished leather or leather goods, and garments). These two broad sub-sectors each integrated three value chains:

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[1] Enterprise Partners 2020 *Case Study Compendium: Insights and Lessons for Driving Market Systems Change for Inclusive Growth in Ethiopia*, Enterprise Partners 2013-2020

[2] https://www.worldbank.org/en/country/ethiopia/overview

Cotton to Garments involved cotton production, spinning and weaving, and garment manufacture; Livestock to Leather involves livestock production, leather production (tanning), and leather goods production. The government also established policies focused on capturing value addition within the country.

While the policies were conceptually sound, within the reality of greater global integration, a number of practical competitiveness issues arose for the smaller value chains within each sector. Each of the internal sub-sectors produced a fixed product which could service different markets both internal (domestic) or export, which meant they could also compete with similar products from other countries. Therefore, each of the sub-sectors needed to be globally competitive on its own in order to make the entire sector work most effectively within Ethiopia. If any of the sub-sectors was not competitive then the incentives would not align between the three integrated sub-sectors, as manufacturers could access raw materials from other sources at a better price and quality if local supply was not competitive.

As the ultimate value addition was targeted at industrial outputs (garments, finished leather or leather goods), the government placed the Ministry of Industry (MoI) in charge of development of the full sectors – from agricultural production through to intermediate processing and then the finished product. However, the MoI did not have relevant production-side expertise, which meant many policies designed to incentivise the industry actually penalised production from the intermediate sub-sectors.

EP's role as partner to government

EP was designed to support the implementation of the GTP, with a particular focus on strategies to improve smallholder farm productivity. This was to be done through the dissemination of effective technologies via a scaling-up strategy, conserving natural resources and improved irrigation. The programme was also designed to bring about a shift from subsistence agriculture to the production of high value agricultural products. EP applied the Making Markets Work for the Poor (M4P) approach to stimulate growth opportunities for poor people in this overall effort.

M4P (now commonly referred to as MSD) takes a systemic analytical and implementation approach to developing sectors of the economy. The MSD approach analyses the relationships between the core market actors who are directly in the value chain(s) producing and transforming the goods, the supporting systems that are needed to make the core market actors more effective, and the policy and enabling environment which governs each of the sectors.

Implementing the MSD approach requires governments and other policy formulators to put in place the right rules that will foster stronger growth. This case study explores EP's role in influencing change in the policy and enabling environment to create incentives for the right behaviour, taking into consideration the political economy and global trade issues.

Implementation

EP carried out sub-sector studies on cotton and leather to understand where systems improvements were needed to effectively drive increases in production, productivity, and value addition to make the sub-sectors more competitive. EP also identified the needed supporting systems within each sub-sector and set about addressing constraints in the underlying supporting markets. However, it became clear that it was not just the supporting services that needed to become more effective. The existing policies, regulations and government institutional arrangements needed adjustments in order to align incentives and drive increased productivity and greater competitiveness across the agricultural portions of the target sectors.

Focus of this case study

This case study focuses on the third element of the MSD approach: how EP collaborated with government and key stakeholders in the cotton and leather sectors to influence public policy and the rules governing the sectors in order make them more effective engines for economic growth. Two mini case studies on the cotton and leather sectors capture the key strategic issues in the sectors, how EP's interventions helped build an evidence base of critical challenges to growth, and how EP worked with public and private stakeholders to improve the policy environment. While this case study highlights only two mini-cases, EP applied this same approach to strategy development and policy change in other sectors. The case study concludes with some of the key elements needed to build consensus across stakeholders and to develop and implement sound evidence-based strategies and policies.

Case study:
Influencing the rules in the cotton sector

Ethiopia's cotton, textile and apparel value chain context

The Government's bold strategic decision to invest in the textile value chain

The textile and garment value chain sat at the top of the government's priority sectors list with the anticipation it would drive the ambitious economic transformation. Cotton is a primary input for the textile industry and a source of livelihood for hundreds of thousands of smallholder farmers and farm workers. In alignment with its ADLI strategy and considering the huge agro-ecological potential of the country for cotton production, the government acknowledged cotton as a strategic crop and pledged to give it the same level of attention as the textile and garment sub-sector. The government set a production target within the GTP II of 1.8 million metric tonnes (MT) of raw cotton. This would create many rural jobs and feed raw materials into further value addition in textiles and garments, creating 143,000 new jobs and producing USD one billion in textiles and clothing exports by the end of 2019.

The government invested heavily in the construction of key infrastructure, the development of integrated industrial parks and improved business-enabling conditions. Low costs, abundant labour, a convenient geographic location and favourable government policy paid off and Ethiopia soon became an appealing destination for textile and apparel manufacturers, attracting considerable amounts of both greenfield investment, mostly from Asia, and investment through the privatisation of public-owned large-scale textile and garment factories.

> Textile investment is pouring into Ethiopia, helped by shared vision of brands, manufacturers and fabric mills, government support, preferential trade deals, investments in infrastructure, low costs and an unexpected windfall from the end of the Trans-Pacific Partnership.
>
> ***- Just Style monthly magazine (May 2017)***

The investment in garments and textiles was expected to drive demand for up to 1.8 million MT of cotton. In 2011-2012, Ethiopia produced 165,000 MT of raw cotton on around 93,000 hectares (ha) of land. This provided livelihoods to an estimated 50,000 smallholder cotton farmers and created job opportunities for more than 40,000 farm workers employed by more than 1,000 commercial cotton farms. Another 2,000 workers were employed in 21 ginneries which processed raw cotton into lint cotton. With more than three million ha of land suitable for cotton production, the assumption was that Ethiopia could ramp up production and stimulate rural incomes and value addition.

Despite the government's plans, national production did not rise to meet the demand of the expanding garment and textile industry. Several systemic constraints such as poor productivity, access to reliable energy, access to foreign exchange, shortages of raw materials due to the weak linkages between agriculture and manufacturing sectors, and poor technological transfer made it difficult for the industry to achieve the targets laid out in the GTP II.

The key features of the cotton sector and government policy

With a goal of upgrading the cotton sub-sector to the level of the fast growing textile and garment sector, the GoE instituted a number of policies to increase cotton production, starting with trade policy. It then re-arranged the institutional governance of the sector while also providing significant investment support.

Trade policy

In order to stimulate linkages to the textile industry, the GoE imposed a ban on cotton exports in 2010 to force ginneries to sell to the domestic industry. Unfortunately, this neither improved the links to the textile sector nor the quality and quantity of cotton produced. Therefore, in 2012 the ban was officially lifted but was replaced by a bureaucratic approval process for export licenses, which resulted in very few actual exports. This new process also did not yield improved business relationships, so in 2017 the government lifted the restriction.

Changing institutional governance

Seeing that trade policy would not drive the desired linkages, the government transferred the supervision of seed cotton from the Ministry of Agriculture and Rural Development (MoA) to the MoI in 2014. The Ethiopian Textile Development Institutes (ETIDI) under the MoI took over supervision of the cotton sub-sector along with the textile and garment sectors.

The GoE believed that, as cotton was a primary input for the textile industry, it could improve value chain relationships and the competitiveness of the textile industry by placing the cotton sector under the responsibility of the MoI. Producers had complained about the low prices paid, while the textile industry complained about the poor quality and unreliability of the lint. The MoI hoped to improve communications and relationships with the textile and garment industry and incentivise cotton producers to line up their production to meet the quantity, quality and pricing required for a competitive textile industry.

Stimulating investment in cotton production

To expand cotton production, the government allocated land to the sector. Most of the land allocated for new cotton investors was virgin land requiring significant investment in land clearing and preparation. To meet investment and working capital needs, the government allocated more than ETB 4.5 billion (USD 200 million) through the Development Bank of Ethiopia and lines of credit through commercial banks to increase lending to large commercial farmers cultivating a minimum of 30 ha.

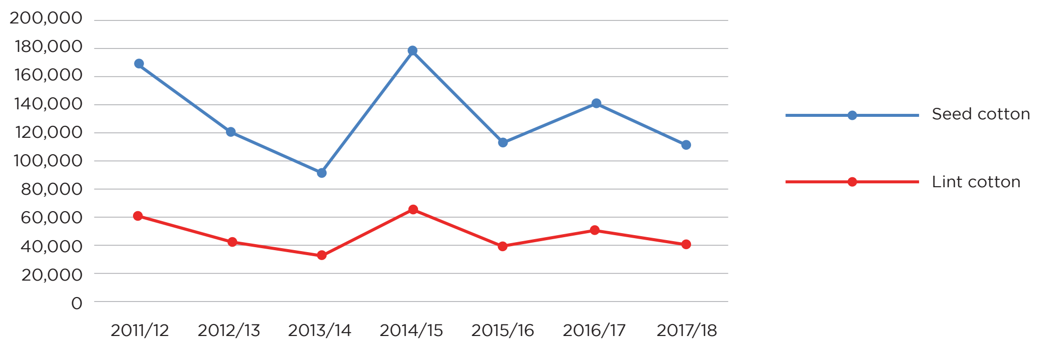
The cotton and textile value chain dynamics

In spite of these actions by government, the cotton sector did not respond. Raw cotton production did not reflect the sub-sector's potential, nor satisfy the growing textile and garment industry's demand.

Figure 1 demonstrates that from 2014-2015 cotton production nose-dived and continued to decline.

The country produced on average 47,000 tonnes of lint cotton (used by spinning mills) between 2013-2020, while the domestic demand for lint cotton hovered around 100,000 tonnes.[3] This excluded potential demand from the multinational vertically-integrated textile mills operating in the industrial parks.

Figure 1 Seed and lint cotton production trends in tonnes 2011-2018



Source: NCDS (2017); ETIDI (2019)

The lack of strategic direction and mis-aligned incentives weakened the business linkages between cotton farmers and textile companies, while also failing to attract impact investment in cotton production. This jeopardised the prospect of developing a sustainable and competitive local supply chain.

Locally-produced cotton was only used by a few integrated textile mills, mostly supplying the local market and the traditional handloom sector. Meanwhile, the majority of stand-alone garment companies, including those in the highly regarded industrial parks, relied heavily on imported cotton yarn and fabrics. The reality of the buyer-led textile and garment industry was that economic benefits were lopsided; the value accrued towards the downstream actors in the value chain, which did not incentivise farmers to produce more. A farmer and ginner earned a marginal increase in revenue due to better quality cotton and longer staple length. At the spinning and fabric mill level, there was a medium increase because of increase in value, and increased volume of yarn and fabric (finer counts). At the apparel level, particularly the retail stage, there was a larger increase due to the higher product unit value. This helped explain the power dynamics and the disproportionate increment in both value addition and profit making downstream of the supply chain, in particular the garment and retail businesses.

[3] Assuming 80 percent capacity utilisation in the factories.

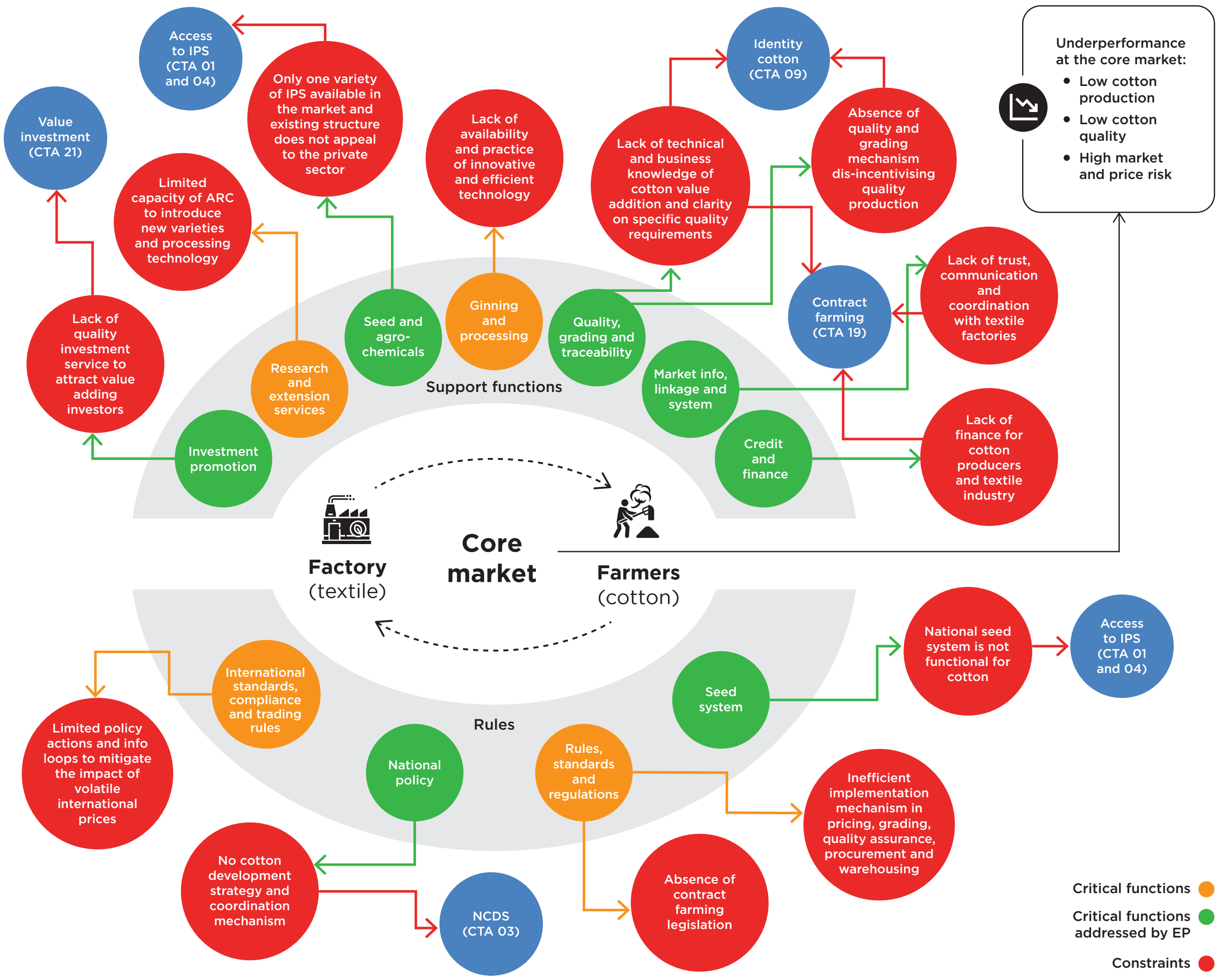
EP interventions – getting the evidence

EP invested considerable time in thorough desk reviews, field visits, stakeholder consultations and validation workshops to understand the root causes that forced the Ethiopian cotton farmers to adapt a 'low-cost, low-output' business model. The focus of this unproductive business practice was on maximising short-term profit by trading off on quality and reliability. The analysis highlighted the steps needed to increase farm-level productivity, improve linkages to the textile industry and become a more effective sub-sector.

The cotton market core, the supporting systems, and the rules

The following diagram illustrates the technical and systemic challenges faced by the core market actors (cotton farmers, ginners and textile mills) in the supporting functions and rules and regulatory environment. The challenges are categorised on the cotton production side and on the market processing and linkages side.

Figure 2 The cotton market system



Production-side challenges

On the lint production side, issues of low farm productivity, the quality of the cotton produced and the quality of the ginning dominated. The textile industry needed longer and finer fibre cotton to make better yarn, but the varieties planted by the farmers were mainly short fibre with unacceptable levels of contamination and uniformity. The gins, mostly saw gins, tended to chop up the fibre (unlike roller gins), and aggravated the level of contamination due to poor ginning practices. The key underlying constraints to these problems were:

- **Absence of improved inputs supply and farmer knowledge:** Farmers did not have access to the seeds needed to produce the quality of lint demanded by the textile industry due to an ineffective national seed system and limited information on GAP for growing cotton from extension services.
- **Poor cotton processing capacity:** Archaic ginning technology impacted the quality and the efficiency of lint processing. Outdated saw gins produced low yields and poor-quality lint, affecting profitability for both producers and ginners.

Market-side hindrance

Numerous factors challenged the marketing of cotton, including weak value chain coordination; use of commission ginning without quality standards; limited flow of information to farmers from markets; and limited access to finance for marketing campaigns.

These challenges were exacerbated by the absence of a government policy and institutional framework to raise the efficiency and competitiveness of the cotton value chain. This created weak transparency along the value chain and a lack of knowledge on how to promote and manage an environmentally and socially sustainable cotton supply chain.

Key interventions initiated by EP

Given the need for quality seed to produce the right product for the textile industry, EP focused on enabling access to improved seed to address technical constraints to improving cotton production, productivity and quality in the near term. Meanwhile, addressing the medium to long-term binding constraints such as a market-led quality and grading system required convening a high-level, key stakeholder platform to discuss systemic and policy issues, including the cotton sector development strategy.

Intervention 1: Promoting Access to ARC Seeds (CTA 01 2014 - 2016)

In 2014, all seed producers produced highly adulterated recycled seeds of old varieties. Public and private agricultural research centres (ARCs) had no incentive to breed improved seed varieties as it did not increase sales revenues.

The ARC had been producing limited quantities of improved basic seed, which they sold to commercial farms to use for conventional production rather than multiplication, wasting the investment. In response, EP introduced an innovation to link the ARC with the Farmer's Union and carefully selected commercial farmers so that they could multiply improved basic seed into C1 certified seed. EP established a Technical Working Group (TWG) to manage the pilot, which included the Ethiopian Cotton Producers, Ginners, and Exporters Association, the Worer ARC, the MoI, ETIDI and the Ethiopian Institution of Agricultural Research as key stakeholders.

Results

The pilot was successful at a small scale. The Farmer's Union mobilised smallholder farmers for cotton seed multiplication, eventually working with 50 smallholder farmers in 2014-2015 to produce 21 MT of certified seed. The Union established a contract relationship with a ginnery which, with EP support, offered improved seed processing. This seed production model was copied by another union and a total of 200 MT of certified seed was produced, with 30 MT sold to smallholder farmers to plant in the 2015-2016 season.

Critical Lessons Learned from the Pilot Intervention

The pilot highlighted the seed market failures that had resulted from the new institutional arrangement, with the MoI in charge of coordinating the cotton sector:

- The new institutional arrangement disconnected the cotton sector from the MoA and it was no longer involved in cotton production activities. As the research, extension and seed regulatory body is under the MoA, cotton growers became disconnected from these services.
- Farmers did not have an economic incentive to grow cotton, which was just one crop in their portfolio, as other crops such as sugarcane guaranteed profit margins.
- There was limited collaborative leadership between MoI or ETIDI with the Cotton Research Centre. Collaboration remained informal, largely through personal relationships. Agricultural experts working at various levels of the MoA did not think cotton was supported by the government.

The above key findings led to the design and development of the following interventions in consultation with key implementing partners.

Intervention 2: Enabling Access to Improved Seed (Scale-Up) (CTA 04 2016 - 2017)

EP moved beyond a small number of unions to facilitate the distribution of basic seed to competent organisations. In 2016, 30 companies applied for the use of basic seed from the ARC, which selected 13 companies to multiply seed for sale to smallholder farmers. ARC scaled up production of basic seed, producing 200 quintals in 2016-2017, up from 60 quintals in 2014-2015.

Results

This intervention introduced a private seed company model of outsourcing seed multiplication to a cluster of smallholder and large-scale farms. With increased demand for improved seed, EP facilitated an agreement with ARC to align incentives for seed multiplication, giving ARC control over access to the basic seed. The TWG established the criteria for seed companies and selected the farmers and commercial farms to serve as multipliers and prevented the farmers from using basic seed for planting.

Intervention 3: Promoting Identity Cotton in Ethiopia

Ethiopia did not have a system to develop sustainable cotton. There were no commercial suppliers meeting international standards, and no support market actors helping suppliers to do so.

The intervention leveraged the incentives of the international buyers and FDI vertical operations to source sustainable and traceable cotton in order to persuade them to support the farmers and ginners in the supply chain. It was the first time buyers and FDIs in Ethiopia linked their supply chain to large-scale cotton producers who enhanced economic, environmental and socially sustainable cotton standards and production.

Results

- Three commercial cotton farms and 100 smallholders adopted new production models of identity cotton for the first time through the Better Cotton Initiative (BCI) standards. This increased cotton yield, reduced production costs and improved market compliance.
- Two textile mills adopted a new BCI cotton sourcing model, leading to better quality and traceable cotton and enhanced marketability and competitiveness throughout the developing sustainable cotton supply chain. One international buyer designed and implemented a new cotton supply chain and a custodianship model, to source sustainable and traceable lint cotton.
- The cotton association, ARC and two ginners developed a new support market role that provided coaching and BCI standards support to cotton producers and ginners in Ethiopia.

Intervention 4: Textile-led Contract Farming

This intervention addressed the absence of strategic partnerships between cotton farmers and textile mills needed to produce quality lint that matched the requirements of the textile industry, both locally and internationally. It also addressed the absence of a feasible business model to increase competitiveness and transparency along the cotton value chain. It sought to mitigate high market risk due to international cotton price volatility, shortage of working capital, weak bankability of both smallholder and commercial cotton farming and increase access to quality inputs through the provision of crop inputs on credit, recoverable at the time of product sale.

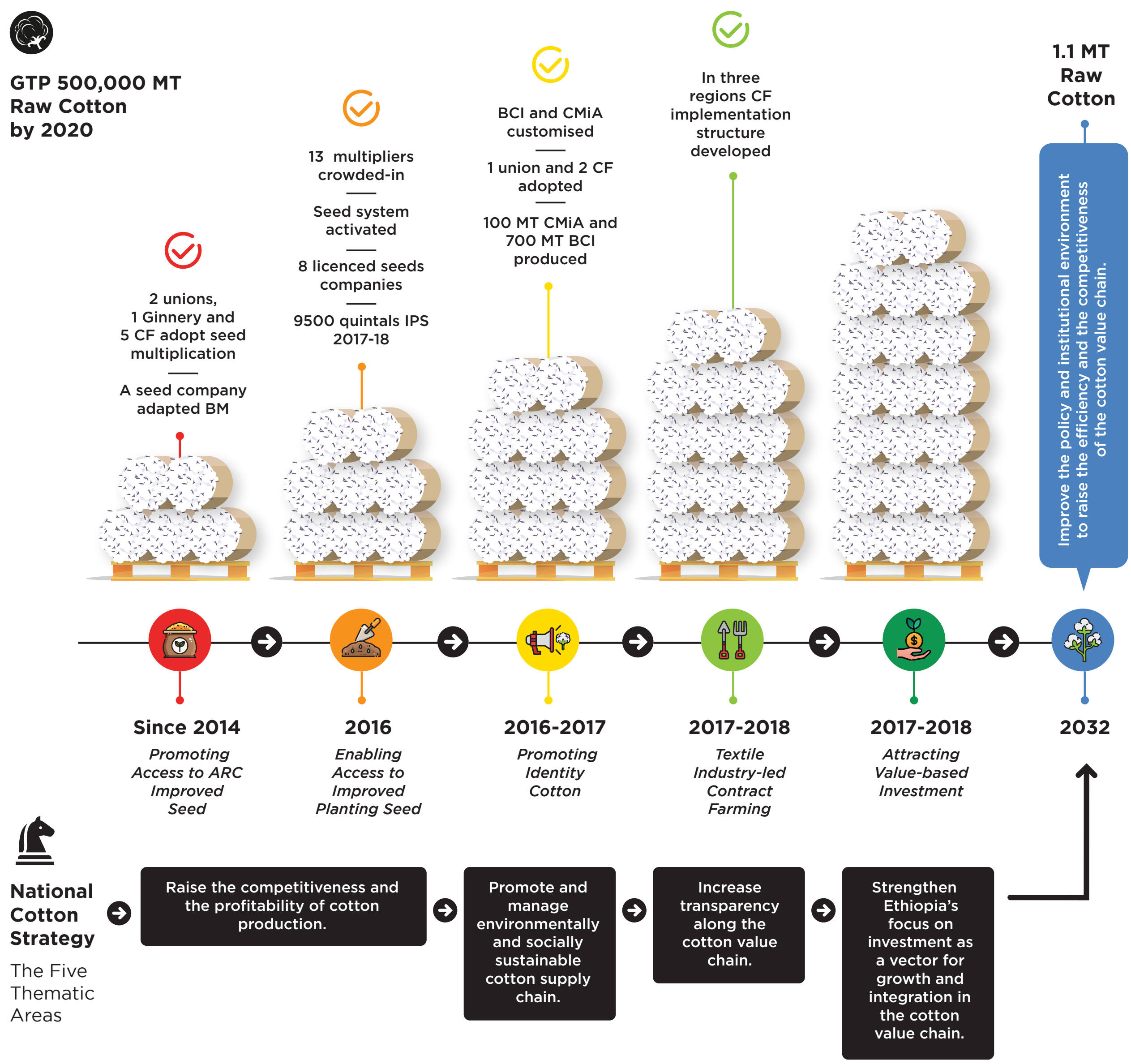
Results

- Two local and one FDI vertically-integrated ginner/textile factory invested in innovative contract farming schemes in three states. The contract farming schemes provided critical embedded services that encouraged an increased number of smallholder farmers to shift cotton production. The three contract farming schemes worked with 4,000 smallholder farmers and increased the use of good agronomic practices by adopting international sustainable standards and technologies - Cotton Made in Africa and BCI. The schemes generated 145,156 GBP in sales in the 2019-2020 crop season, which was expected to double at the end of the following crop season.
- For the first time, Ethiopian smallholder farmers produced certified organic cotton. The incentive-based and transparent mechanism for quality cotton production and marketing was supported by international cotton quality standards. It ensured that smallholder farmers earned a 30 percent premium price, which they used to construct their own cotton storage. For the first time, a textile mill produced organic textiles for export from locally sourced cotton.

Conclusion

The results, captured in Figure 3 below, from these four sequential interventions over four years provide examples and models that put the industry on a path to make cotton production more competitive and investment-friendly in Ethiopia.

Figure 3 Trajectory of cotton market interventions and results



The evidence to drive policy change

While implementing interventions to improve cotton market systems functions, it became apparent to EP that the overall policy framework was a major impediment to taking these interventions to scale. However, EP had created many good relationships and structures to help address the constraints. During the first intervention (CTA 1), EP facilitated the establishment of the TWG to fill gaps in seed regulation and supervision through formal communication. The TWG also supported lobbying for the ARC to release basic seed to selected seed multipliers, and develop technical procedure and quality assurance mechanisms for seed multiplication and production.

The TWG's effort to fill the gaps in seed regulation and quality assurance standards led to increased investment in seed multiplication. This then led to immediate action by the MoA's seed quarantine department to put in place a functioning system to manage the increase in private sector investment in cotton seed multiplication and the fast expanding seed market.

To meet its potential for cotton production, Ethiopia needed an institutional arrangement to bring the cotton and textile sectors together. The TWG identified that to transform the performance of the cotton sector a comprehensive cotton policy was necessary. Further, a strategic direction and creation of a consultation framework was needed to bring together the two main partners – the seed-cotton producers and the textile industry – both of which were organised beneath their own umbrella organisations.

? **Why Change the Rules?** Policy challenges (as learned from the EP experience)

The interventions highlighted that cotton production was uncompetitive for farmers compared to other industrial or cash crops such as sesame, mung bean and sorghum. Developing the cotton sector required farmers to plant more cotton, and for this to occur it needed to be more profitable. To create a sustainable development model, the cotton sector in Ethiopia needed to create economic value for all actors along the value chain, and incentivise farmers, ginners, the textile industry and government work together.

There was no unified research and development programme for cotton. The cotton research supported by the government was carried out through a federal irrigation research centre (Worer ARC) and a rain fed research centre (Assosa), but there was no sub-centre representing the seven cotton growing agro-climatic zones. Moreover, the Worer ARC, which was supposed to serve as a centre of excellence for the cotton sector, was underfunded as the government's decision to put cotton under the MoI had shifted its focus and funding to other crops.

The institutional arrangement which placed the supervision of the cotton sector under ETIDI and subject to export restrictions was not conducive to developing a globally competitive industry. ETIDI tilted the political and economic incentives in favour of the textile industry, without considering the interests of the cotton producers. Designed to incentivise and promote vertical integration, in practice it led to a highly fragmented sector without transparent and effective coordination mechanisms to align the appropriate financial and technical incentives needed to drive the cotton sector's development. The policies disregarded the potential of tlocal cotton to become a competitive export commodity.

The coordination between the value chain actors did not incentivise farmers to produce the quantities of good quality cotton needed to meet the requirements of the local textile industry and the international cotton market. Ginners, textile mills and government needed to ensure farmers understood the financial benefits of producing quality cotton to industry standards. This would make cotton more attractive than other crops (such as sesame). Without a forward marketing business model (contract farming) planting cotton was a costly and risky operation for farmers.

The market system also failed to incentivise farmers and traders to invest in good harvesting and post-harvest practices or for ginners to replace their often archaic equipment with new technology. Eventually this led to farmers and ginners adopting a 'low cost/low profit business model.'

Conclusion

These challenges and gaps in the market system made cotton production unattractive to farmers, leading farmers to shift their production to other cash crops. The key policy gaps were the absence of a national cotton policy and transparent market mechanisms within the cotton market. This analysis ultimately convinced all key stakeholders of the need for a comprehensive national cotton development strategy.

How did EP help change the rules?

From the first cotton intervention it became clear that improving cotton production would require a clearer government strategy. EP therefore instituted an activity to develop the National Cotton Development Strategy (CTA 03) very early on.

A Technical Working Group can build ownership for policy change

EP's use of a TWG as the core of the first intervention laid the foundation for future dialogue. The cotton seed intervention was politically sensitive and cut across the mandate of several government institutes, therefore EP found it very important to convene the technical stakeholder platform[4] as a TWG. The TWG platform helped to develop a common understanding of the binding constraints to the cotton market through collective field visits, documentary evidence and experience sharing meetings.

Facilitating effective linkages between the TWG stakeholders helped build strong relationships, develop a solid foundation and earned both trust and credibility among key cotton market players, government partners and EP. This proved to be critical to the successful facilitation of positive impact at scale and effectively inform and influence vital change in rules and policy.

After two years of regular collaboration, the TWG members agreed on the persistent disincentives and conflicts of interest between key market players and lead government institutes, including some development partners.

The TWG reached agreement that the establishment of a successful cotton industry was dependent upon the government's long-term commitment and investment. This included developing a national cotton policy that provided direction, incentives and protection for the required investments. Accordingly, TWG members successfully communicated to the respective decision-makers in the relevant ministries and organisations the urgent need to develop a comprehensive national cotton policy based on a reliable scoping study. This resulted in securing the commitment of cotton and textile sector decision-makers to develop a national cotton development strategy.

Promoting ownership by the government by taking a facilitative role and providing updated information

From the outset, EP knew that identifying and securing the ownership of key stakeholders would be crucial for a comprehensive and corroborated national cotton policy that provided strategic direction for the sector. Carrying out a proper political economy assessment and active engagement with the TWG equipped EP with knowledge of key stakeholder conflicts of interest and incentives. This shaped the policy-influencing strategy and planning process and highlighted the importance of accurate information in driving the process.

A scoping study

To drive the strategy development process, EP committed to provide information on the persistent development constraints faced by the cotton sector to finding an agreed strategy to bring transparency to the cotton market and foster cooperation. The scoping study allowed

[4] Ethiopian Cotton Producers, Ginners, and Exporters Association, the Worer ARC, the MoI, ETIDI and Ethiopian Institution of Agricultural Research were key stakeholders

for issues to be laid out and greater awareness to be built, and served as the starting point for policy development. The study took eight months with active participation and coordination by the TWG. It was financed by EP and carried out by an international cotton strategy group. Government ownership was crucial for the data and information collection from the private sector and government organisations dispersed in six cotton-growing regions. Moreover, the study changed government attitudes toward the graveness of the sector's problems and the need for a strategy.

The scoping study was organised into six thematic areas: i) production and productivity; ii) processing and value chain; iii) competitiveness and market access; iv) value chain organisation and supporting services; v) policy and regulation; and vi) social impact and environmental compliance. Each thematic area included one local and one foreign consultant under the supervision of a TWG member. It was implemented through field visits in six regions between December 2015 and August 2016. These six regions represented 90 percent of cotton production areas - Afar, Amhara, Benishangul Gumuz, Gambela, SNNPR, Tigray. The study also involved meetings with a broad range of value chain stakeholders.

The scoping study took almost as much time as the national cotton strategy development. It proved to be an important document that provided deep insight into the cotton sector and prompted stakeholders to develop and implement the recommended interventions. This occurred in parallel to the strategy development process.

Developing the National Cotton Development Strategy

The scoping study and strategy development began on 1 December 2015 and ended on 31 December 2017. EP signed a Memorandum of Understanding with the MoI with a clear description of the roles and responsibilities of each of the partners as they engaged in the national cotton strategy development.

National Steering Committee

The National Steering Committee (NSC) was established with members from key stakeholders and was led by the State Ministers of the MoI and MOA. It met at least once every three months to provide the following strategic directions:

- Ensure the cotton strategy was in alignment with the GTP II
- Provide collaborative leadership to bring the required resources and technical expertise from all relevant stakeholders
- Ensure ownership and accelerate momentum towards the development of a comprehensive and feasible national cotton strategy
- Actively follow up on implementation to ensure it was carried out in an organised, timely and participatory manner and make sure it considered the interest of all market players and stakeholder
- Ensure the understanding of existing cotton market behaviours and conflict of interests.

Technical Working Group (TWG)

A new TWG for the National Cotton Development Strategy was established. It was composed of relevant technical experts and chaired by ETIDI and the EARI. This TWG met monthly or as-needed to provide technical support to the study team and report back to the NSC.

Having a clear organisational framework allowed EP to convene and engage key stakeholders and support the identification and engagement of individuals who would champion the changes.

Continued financial and technical support toward policy reform.

With government ownership, EP committed to finance the strategy and support the process moving forward. EP served as convener and secretariat for both the NSC and TWG and was actively engaged in each step of the process - from developing the detailed scoping study to the nationally-agreed strategy document. The process took one and a half years, including intensive fieldwork, rigorous data analysis and several stakeholder consultation workshops. EP contributed GBP 300,000 to pay for the scoping study, the National Cotton Development Strategy and the validation workshops. Meanwhile, the GoE assigned seven full-time high-level experts, who actively participated in the strategy development, hosted all foreign and local experts assigned to conduct the study, and organised and chaired each workshop.

The National Cotton Development Strategy

In June 2017, the MoI completed the scoping study and the National Cotton Development Strategy 2017-2032 by facilitating active participation of all cotton value chain stakeholders, ensuring collective ownership among all.

The national strategy presented a vision for an internationally competitive, equitable, prosperous and sustainable cotton sector contributing to economic growth of the country. It laid out the following five strategic objectives:

- **Strategic Objective 1:** Improve the policy and institutional environment to raise the efficiency and the competitiveness of the cotton value chain
- **Strategic Objective 2:** Increase transparency along the cotton value chain
- **Strategic Objective 3:** Promote and manage environmentally and socially sustainable cotton supply chain
- **Strategic Objective 4:** Raise the competitiveness and the profitability of cotton production
- **Strategic Objective 5:** Strengthen Ethiopia's focus on investment as a vector for growth and integration in the cotton value chain.

Implementation of the strategy began in January 2018.

What changed as a result?

EP was engaged to address the enabling environment for the cotton sector over the programme's seven years of implementation. It implemented interventions to tackle specific problems, developed governance structures to bring all the parties to the table, and leveraged knowledge from its interventions into developing a national strategy. By building trusted relationships with government and private sector stakeholders, EP contributed to changing the mindset of policy stakeholders on the need to create a competitive cotton sector, not just one that was subordinate to the textile industry.

Within this context, some of the following key policy reform elements included specific rule changes. Some of the changes happened after early interventions, while others were the result of evidence produced during the scoping study and National Cotton Development Strategy development process.

Specific rule changes

The following specific changes resulted from the process. Many occurred while the strategy development was still in process, as a deeper understanding of the challenges arose.

Licensing required to access ARC foundation seed for multiplication

The first policy change materialised at the end of the pilot seed intervention in 2016 and the completion of the scoping study. To increase the availability of certified cotton seed for farmers, EP facilitated the emergence of a public-private partnership and other investments to align interests in the cotton seed industry. The change in rules required certification by the TWG to source foundation seeds from ARC. With this, the ARC was paid by seed companies for new varieties of breeder seed.

Operationalising a seed company certification system

Building on the new rules of access to foundation seed, an institutionally regulated system for certifying cotton seed companies was needed. While the TWG had certified the increasing number of cotton multipliers registered to source foundation seed from the ARC, the MoA created a formal structure to replace the TWG for the supervision and follow-up of the growing cotton seed market.

By 2018, there were seven certified seed companies and 13 seed multipliers producing six new varieties introduced by the ARC. In the 2019-2020 cropping season the seven seed companies produced 6,118 quintals of certified seed, enough to meet the needs of more than 20,000 smallholders. The use of improved seeds led to a 30 percent increase in farmer productivity.

Removing the cotton export ban

Following the deeper understanding of the negative impact of the export restrictions on cotton generated by the scoping study, the government lifted all restriction on cotton exports in 2016.

Develop and implement the National Cotton Development Strategy

The long but successful process of developing the national strategy laid out the government's required critical technical support for the cotton sector. The most important result of the strategy development process was the increased understanding among key stakeholders that the development of an internationally competitive cotton sector would serve as the basis for developing a competitive spinning and garment industry. The fate of the cotton sector should not be tied to, or dependent upon, the spinning and garment industry. Stakeholders also realised that developing a competitive and profitable textile value chain was highly dependent on aligning incentives between value chain actors. This would enhance competitiveness in a vertically-integrated textile and garment industry.

Implementing the strategy

The process of developing the cotton strategy also highlighted needed improvements in the cotton sector. EP simultaneously worked with partners to develop and implement the following interventions in line with three of the five strategic objectives. In addition to improving the market for the supply of certified seed, two other major interventions supported the strategy and served to provide frameworks and models for the private sector and government to leverage in the future.

The Promoting Identity Cotton production (CTA 09) intervention supported strategic objective 3 of the national cotton strategy to facilitate market linkages between international buyers, FDI vertical operators, commercial farms, cooperatives and ginners in order to source sustainable and traceable cotton. This incentivised the buyers to support their entire supply chain.

In support of strategic objectives 2 and 3, EP facilitated the H&M-led Sustainable Cotton Initiative Ethiopia (SCIE) pilot project and tested and proved the business case for producing sustainable and profitable cotton. This resulted in quality produce that ensured market uptake on three large-scale commercial farms and by 76 smallholder farmers. The level of compliance of the targeted farms towards the minimum requirements of better cotton increased from 52 percent to 69 percent after one year of intervention (2016-2017 season) and ended after compliance levels reached 65–90 percent in the 2017-2018 season.

The Industry Led Contract Farming (CTA 19) intervention also supported strategic objective 3 to implement an innovative contract farming model and encourage cotton production by enabling farmers to learn new skills, facilitate access to finance and access to market-compliant quality inputs, introduce new technology and build the trust between farmers and mills. Moreover, the initiative developed a regional and zonal contract farming governance structure (i.e. a regional contract farming steering committee and zonal contract farming governance forum) to improve transparency along the cotton and textile value chain.

In 2020 more than GBP five million in cotton sales were contracted through contract farming schemes between three textile mills and 3,000 smallholder farmers. Moreover, EP encouraged the MoA to establish a contract farming department to support and disseminate best practice and support successful implementation into other strategic crops. The government then developed contract farming legislation to de-risk and encourage private sector investment in contract farming and forward marketing. At the time of writing this was queued for ratification by the government.

Conclusions

When EP started the cotton scoping study, the major challenge was limited stakeholder understanding of what was needed to develop an internationally competitive cotton sector. There was no clear strategy or road map to guide the development of each of the cotton, textile and garment sectors. This was compounded by the flawed logic that the cotton sector should support the textile and garment industries to become more competitive by keeping the price of cotton down. Unfortunately, this did push the price and profitability of cotton production down, making it less attractive.

The major success was convincing stakeholders that a national cotton strategy, addressing incentives and behaviours along the value chain, was needed to create a resilient and globally competitive cotton sector. It was important that each segment of the broader cotton to garments sector (production of lint cotton, spinning and textiles, and garment manufacture) be internationally competitive on its own in order to create a competitive industry, without one segment subsidising another.

A critical element of any policy-influencing intervention is creating a learning process for stakeholders to ensure a common understanding of the facts and issues. Once the information and knowledge gap is closed, securing ownership for policy influencing interventions is less difficult.

EP realised another critical element was conducting substantive political economy analyses to understand the context and develop a strategy to manage or resolve conflicting stakeholder interests.

EP identified and addressed the need for real-time information and knowledge, developed a participatory approach that convinced the government about the existing gaps (using evidence), funded and facilitated the process in a non-judgmental way and helped to convene and present the opportunities to develop the sector by implementing strategic recommendations.

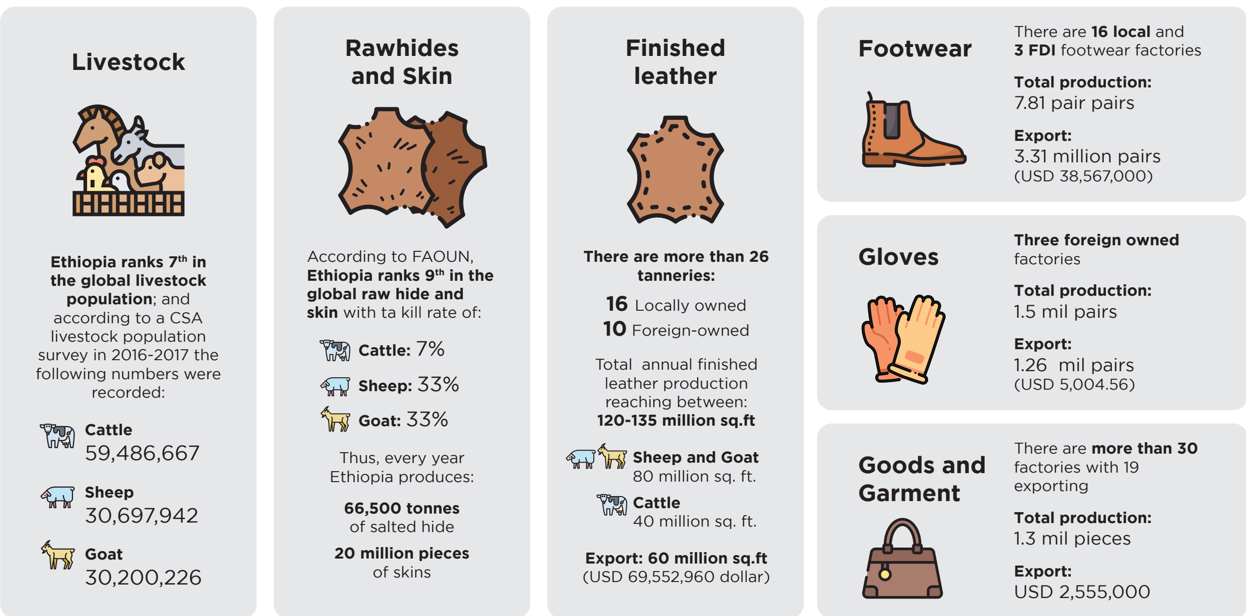
Case study:
Influencing the rules in the leather sector

Background and context

The GoE selected the leather sector as one of its priority sectors under the GTP for its potential in export earnings as well as employment creation. Since the 1980s, the industry had grown organically into more value addition, starting from the export of raw hides and skins, moving to semi-processed leather then to finished leather and final leather products (refer Figure 4). The sector was dominated by local ownership until 2009-2010, when foreign tanneries and some shoe companies entered Ethiopia.

The GoE's plan to increase value addition, exports and employment in the livestock to leather sector included three interlinked core market systems: the supply of raw hides and skins (coming from livestock) to tanneries; the tanning of finished leather for domestic or export leather goods industries; and the production and supply of leather goods in Ethiopia to end markets (primarily footwear and gloves).

Figure 4 Leather sub-sectors in Ethiopia, 2016

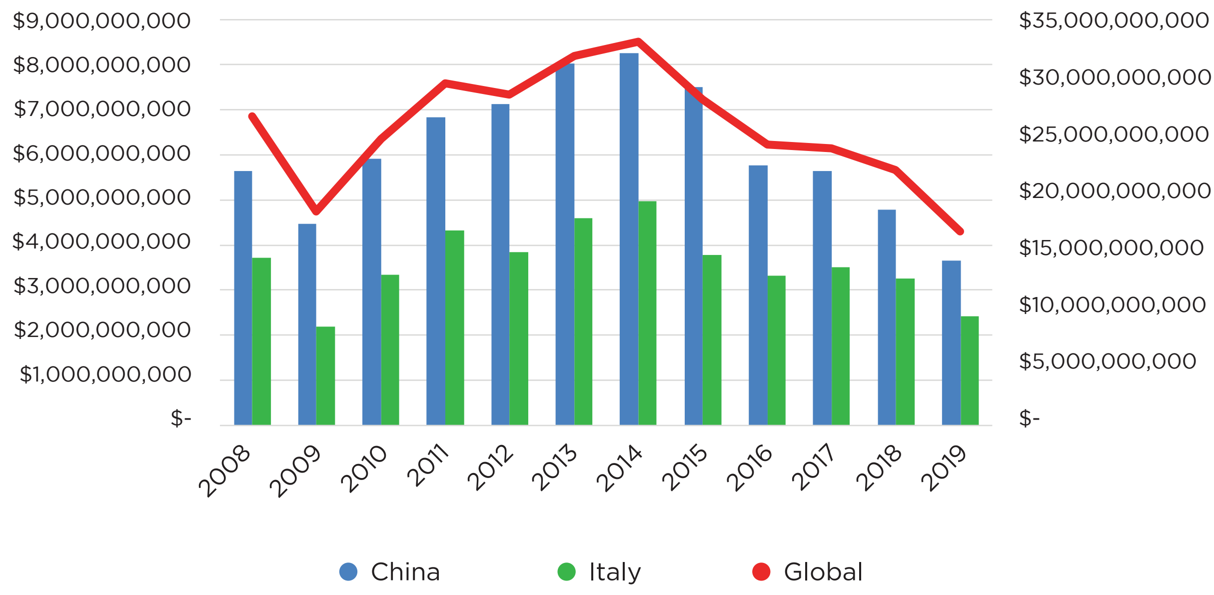


Source: Central Statistical Agency (2016), FAO (2016) LIDI (2016)

The global leather and leather goods market

While Ethiopia had been promoting its leather industry, the global leather sector had evolved significantly in the previous 20 years and it was facing heavy pressure, particularly in relation to environmental, sustainability and social standards compliance. At the same time, there was an increasing preference for synthetic materials over leather as an input. Figure 5 shows the rise and fall of global leather exports as they grew from USD seven billion a year in 2008 to USD 33 billion in 2013, dropping to USD 16 billion in 2019. Leather imports by the world's two leading importers, China and Italy, followed the same trend.

Figure 5 Global trends in leather exports



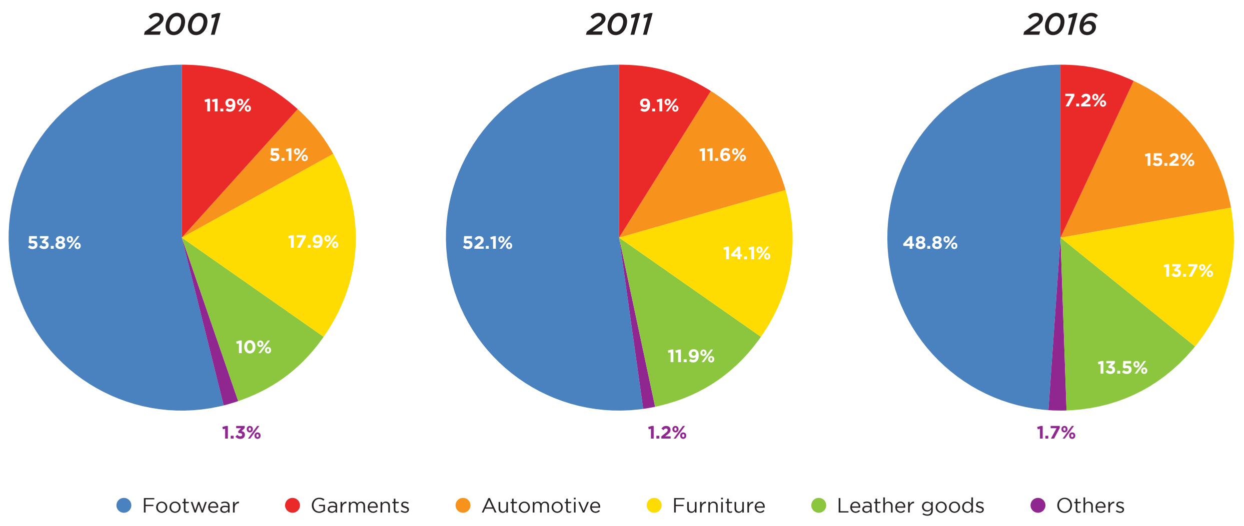
Source: Global Trade Atlas, 2020.

The product sectors of the leather industry have shifted over the last fifteen years, as shown in Figure 6. Given the significant drop off in traded leather starting in 2014, it was likely that much of the shift away came in the footwear and garments industry, while automotive remained strong (primarily for upholstery).

The global footwear market was the largest consumer of leather. The annual footwear production reached 23 billion pairs in 2017 (USD 200 billion in value), and leather footwear accounted for 45 percent of the market value and 20 percent of production volume.[5] It was not surprising that the use of leather in the medium/low value end of the footwear market was decreasing on an annual basis, as it was replaced by cheaper synthetics that offered better cutting yields and were suited to mass manufacturing.

[5] UNIC Italian Tanners Association, 2017

Figure 6 Historical market segment breakdown for leather industry, 2001 - 2016



Between 2001 and 2011
(10 years)

- Footwear is the largest contributor to the industry with steady decline of 1 percent in 10 years.
- Strongest growth seen in automotive sector, with 8% growth, followed by leather goods.

Between 2011 and 2016
(5 years)

- Footwear remains largest contributor to the industry, but maintains steady decline of 1 percent.
- Garments declined at a higher rate in the last five years.
- Automotive and leather goods continue robust growth, but at a lower rate than previous ten years period.

Key takeaways

- Fashion destination (footwear and garment) on constant decline.
- Upholstery destination line automotive strong growth.
- In order for Ethiopia to complete in large, but declining sectors, considerable advantage is price, quality and delivery need to be developed.

While the high end/luxury segment was expected to maintain its use of leather, the overall outlook did not look good with so many brands trying to derive enhanced margins from all products, and the complexities of leather – from grading, size, shape, cutting co-efficiencies and price – was not conducive to reduced cost margins.[6]

These trends have huge implications for a country like Ethiopia, which produces leather meant for the medium/low value sector of the footwear market as the quality and compliance structure needed to supply the high-end/luxury market was missing. While it is true that Ethiopia's top quality sheep skin was demanded by fashion glove manufacturers, it is important to acknowledge that the glove market was very limited globally.

This trend of increased quality expectations from luxury brands combined with the decline in demand for leather by medium-low value product manufacturers was similar for other products as well, including leather articles, garments, furniture and the automative sector.

The implications of the global leather scenario on Ethiopia could be summarised as follows:

- Quality must improve
- Prices must be lowered/more competitive
- Environmental and social compliance must be in place
- Supply relationships must be stronger.

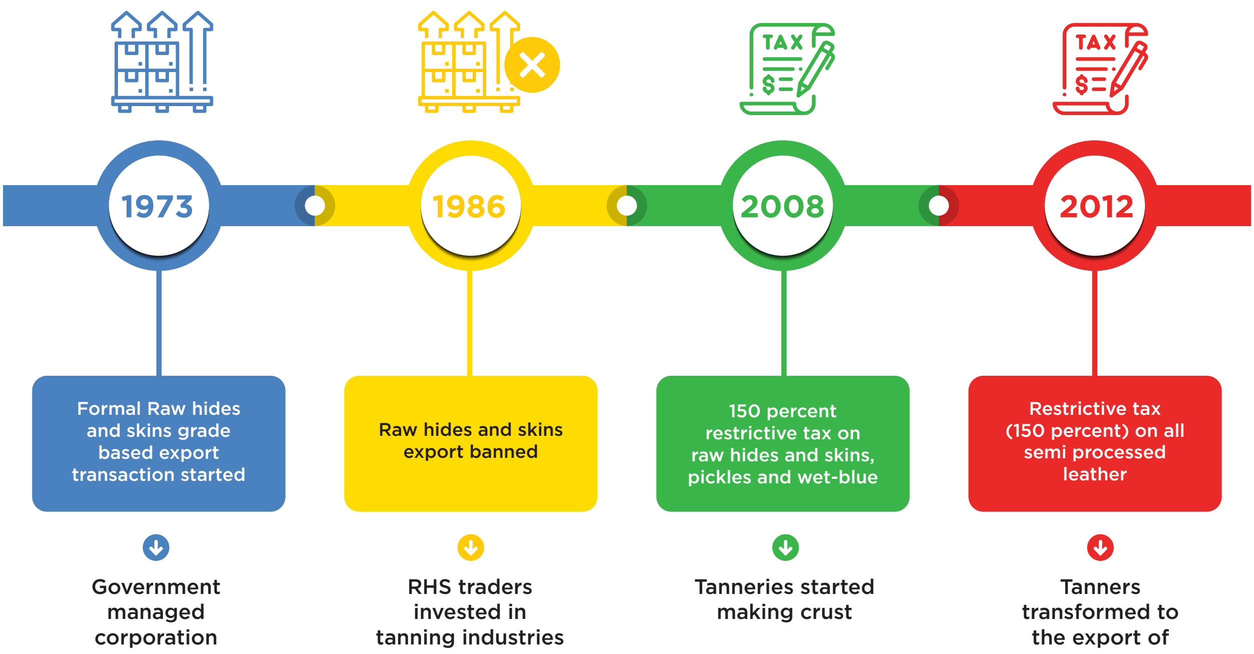
[6] Cassingham, D 2017, Ethiopia's current position

The Government of Ethiopia policy context

Starting in the 1980s, in line with the ADLI, the government instituted a number of policies designed to increase the value add in the leather sector within Ethiopia. The policies tried to promote a shift in incentives by penalising the export of lower value products, while also actively encouraging FDI tanneries and leather goods manufacturers to enter Ethiopia. It was hoped FDI tanning companies would bring their technologies, quality control and market linkages to bear on Ethiopia and stimulate the transition to exports of much higher quality finished leather directly to end markets. The increase of FDI into the production of finished leather goods in Ethiopia could also provide a ready market for Ethiopia's tanneries.

Figure 7 highlights the evolution of government policies on the leather tanning industry and the resulting impacts on the products being produced. In the 1980s, the GoE banned the export of raw hides and skins to promote investment in primary tanning (wet blue and crust). In 2008, the GoE put a 150 percent export tax on wet blue and crust to stimulate upgrading in semi-processed leather and then in 2012 added a new export tax of 150 percent on all semi-processed leather to promote the move to the highest value add product, finished leather.

Figure 7 Transitions in the Ethiopian tanning sector



This policy framework was accompanied by some government support to the private sector to help them adjust. Following the restrictive export tax in 2012, the government put in place a twinning project with the Indian leather industry to support Ethiopian tanneries with the transfer of knowledge and technology to improve their finishing capabilities. This was intended to ensure Ethiopian tanneries could respond to the new higher value export markets. However, this project, and others from the development community, did not lead to major changes at an industry level.

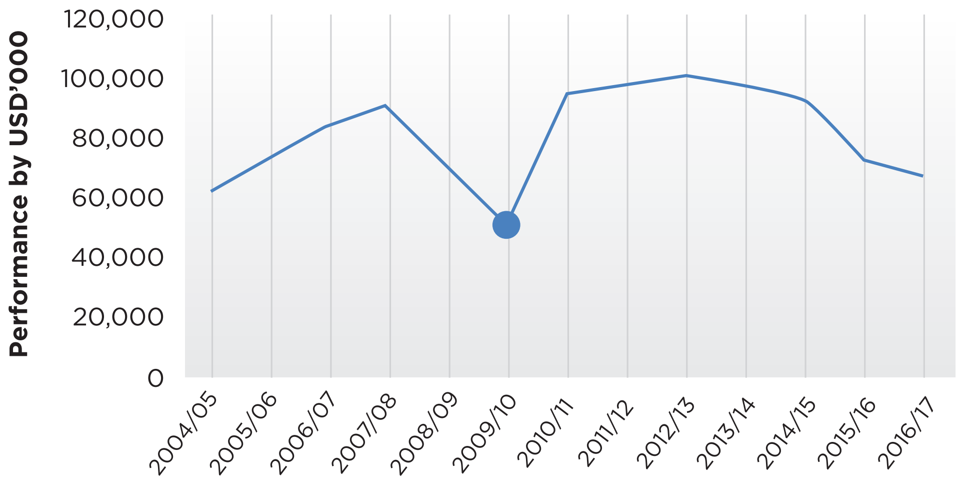
Key features of leather goods development in Ethiopia

In order to support the growth of the entire sector, EP analysed each of the market systems in the 2014-2015 season, identifying the challenges and constraints. EP then designed interventions to address those key constraints. EP engaged with each of the sub-sectors (raw hides and skins, tanning and footwear) over a period of several years, carrying out interventions while also tracking their overall performance. The performance of the three sub-sectors is reviewed before we examine EP's interventions. Since the tanning market system was the main driver of many changes, we look at it first.

The tanning context

The GoE's policies to gradually promote export of higher value products caused some disruption in the export business. Given the changes in types of product for export, adjustment to the new market and finding new buyers, reaching specific quality requirements and negotiating new prices, it was expected that there would be a slowdown before new skills kicked in to drive increases in export orders. Up until the 2012 policy change, industry usually adapted to the disruptions within a couple of years and export performance improved again (Figure 8).

Figure 8 Total export performance of tanneries in Ethiopia



Source: LIDI 2017

However, the 2012 restrictive export tax on semi-finished leather required more significant changes to tannery capacity. Moving from semi-finished leather to finished leather export was more demanding both technically and commercially. As finished leather was usually made to order to meet specific product specifications set by final product manufacturers, tanneries had to develop completely new markets and relationships with end buyers. In addition, the local tanneries did not have access to all of the chemicals and technical skills needed to produce the finished leather. Shortage of hard currency exacerbated the import of the necessary chemicals. This reduced exports by local tanneries and led to an overall decline in the finished leather export value (Figure 9). The industry was hit hard and many local tanneries closed.

Another important scenario was the fact that FDI tanneries had started investing in 2009. There were now 17 FDI tanneries in Ethiopia. Their presence was welcomed with the expectation they would bring knowledge and technology transfer to Ethiopia, and that their presence would lift the sector in the global market. However, this did not happen. The FDIs operated on their own, and the government did not have a proactive policy to ensure their presence boosted local industry. Contrary to the expectations, FDIs brought disruption in both the raw material market and export markets that the local tanneries used to operate in. For most of the FDIs, the leather they manufactured and the price/ value they attracted was not as high as hoped.

Figure 9 demonstrates the steady decline in value per square foot of leather exported. This may have been because most FDI manufacturers were global operators with manufacturing units around the world. They potentially could supply leather to their production units in other countries and use transfer pricing to reduce the profits in Ethiopia.

Figure 9 Finished leather exports 2012/13 - 2016/17

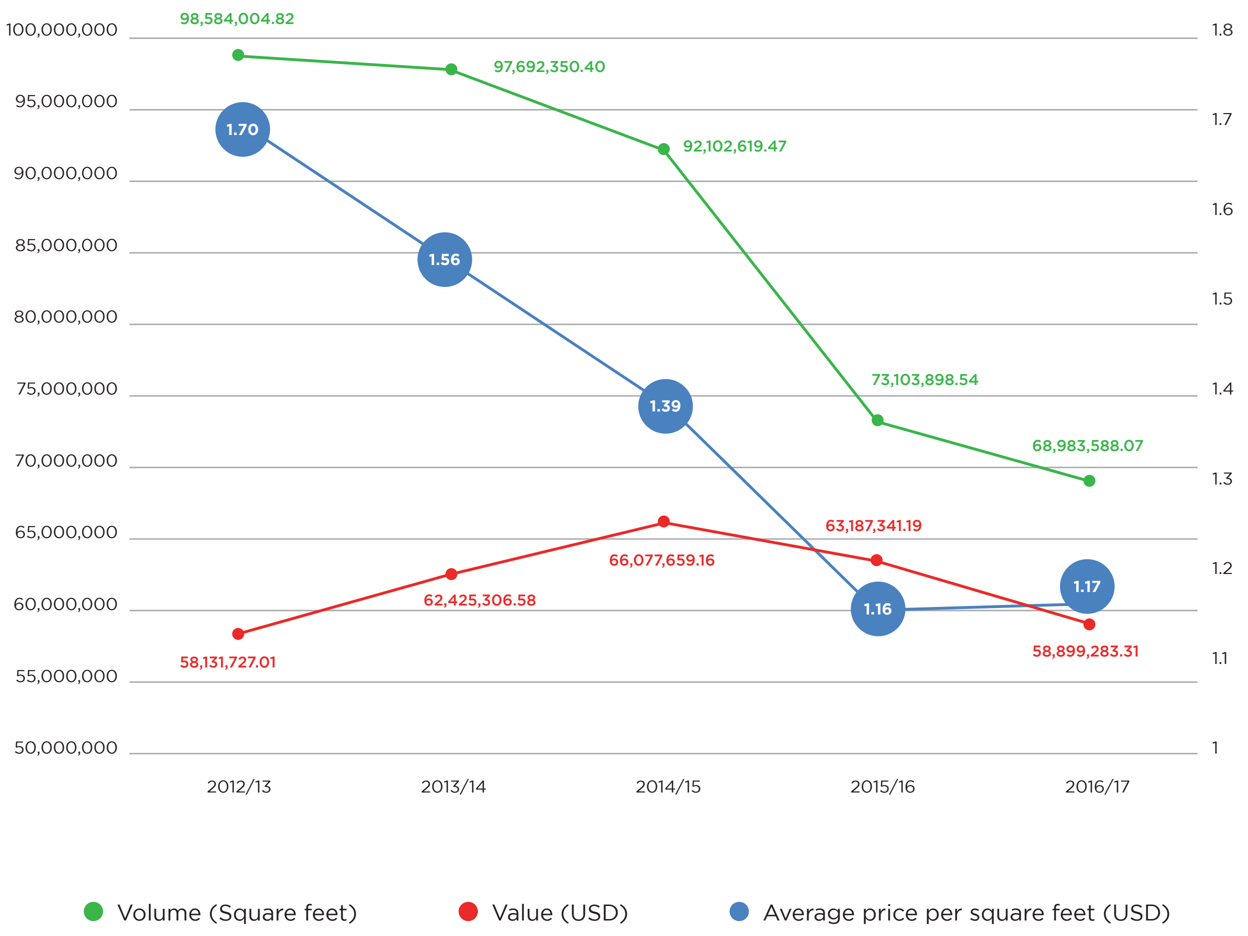
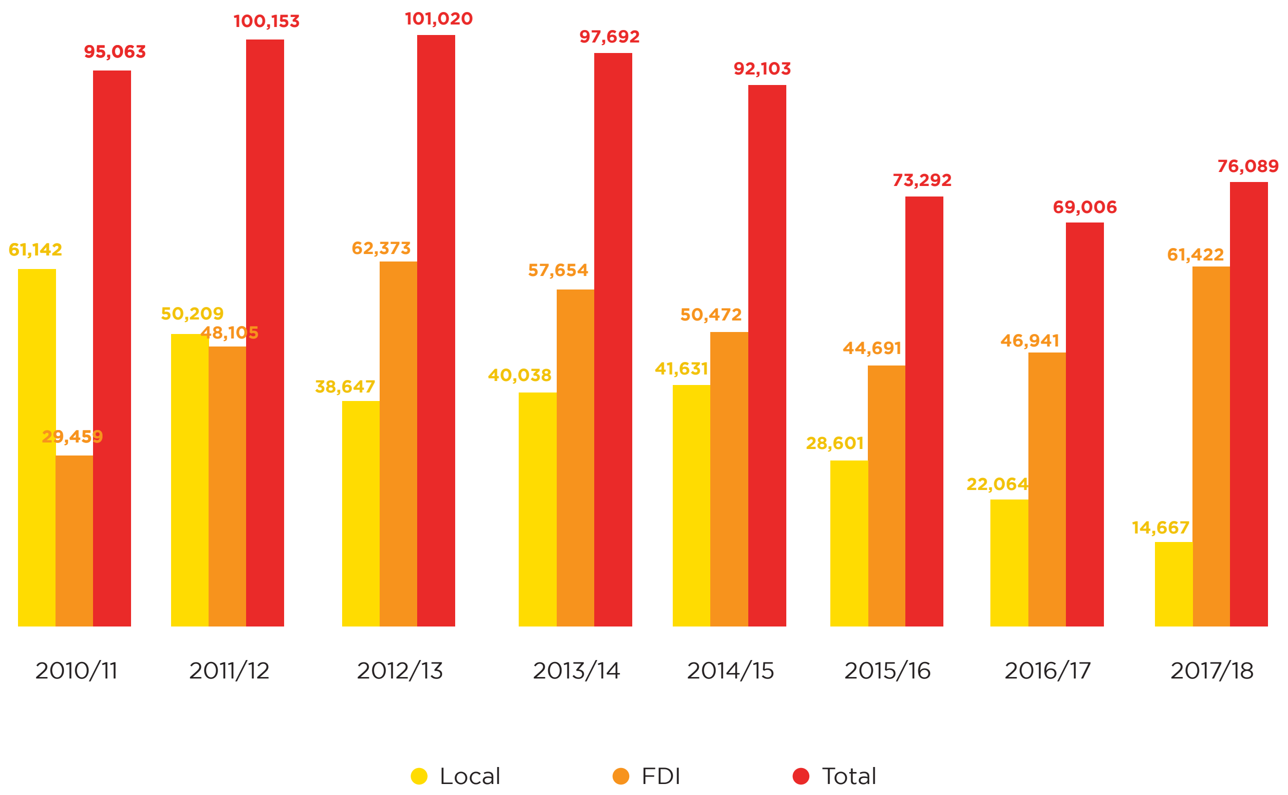


Figure 10 shows how export value declined over many years. This was most true for local tanneries, whose exports in 2018 dropped to a third of what they had been just four years earlier. At the same time, the value of exports was increasing for FDIs, yet total exports had decreased.

Figure 10 Export value of finished leather ('000 USD) by company type



The raw hides and skins to tanneries context

The quality of Ethiopian raw hides and skins, previously known for their high quality, natural substance and unique characteristics, had been deteriorating. The main source of decline in quality came from poor animal husbandry (60 percent), slaughtering defects (15 percent) and preserving defects (25 percent).[7]

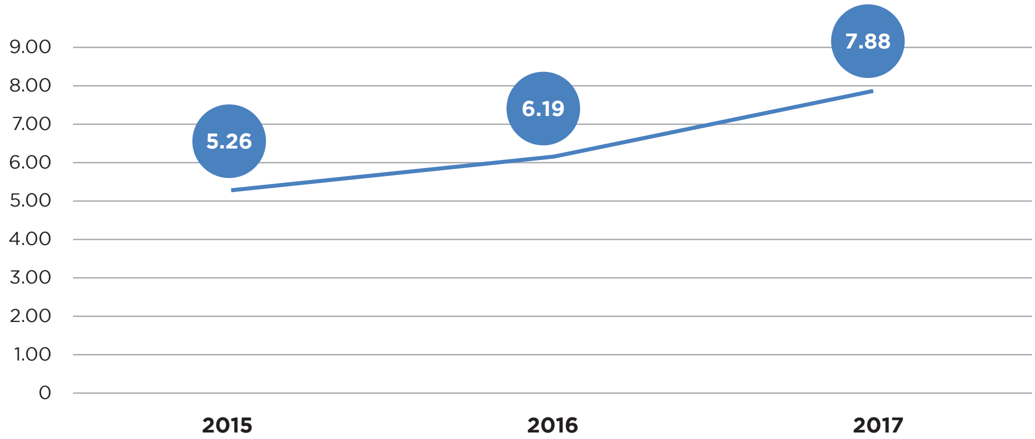
A main driver of this decrease was weaker demand from tanneries. When tanneries were doing well in the export market they would pay raw hide and skins traders and collectors in advance hoping to get the best quality product during slaughtering times. Raw hide and skins traders would supply as per the agreement. As tannery exports dropped, the relationship with their suppliers weakened and purchases using credit were accumulated. This led to delayed payment and working capital problems trickling down from tanneries to traders. In turn, raw hides and skins traders could not pre-fund their collectors, which led to lower collection rates as well as poor quality preserving procedures. The actors involved in the upstream sector were not incentivised to maintain quality and the raw hides and skins supply fragmented.

[7] EP Tannery Market Analysis 2018

Footwear and leather products context

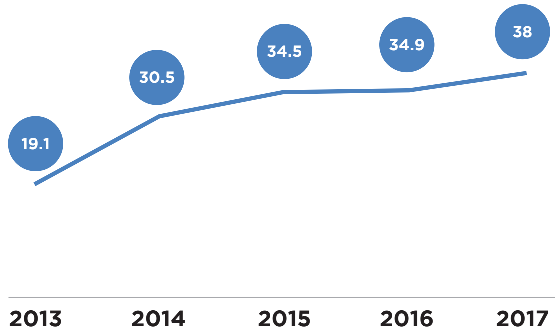
Footwear and leather products were the last sub-sector to join the leather sector in Ethiopia. The footwear industry was initially dominated by small to medium size local footwear manufacturers, primarily serving the domestic market. FDIs entered the Ethiopian footwear industry in 2010 and contributed to the increasing export performance. Since 2017, FDIs have accounted for more than 80 percent of Ethiopia's footwear exports. Local footwear manufacturers could not meet the ever-increasing need for quality and price efficiency that the export market required and were no longer competitive. Weak technical know-how, small facilities, poor marketing and business development efforts coupled with a lack of foreign currency to purchase accessories and components affected their export performance.

Figure 11 Ethiopia's total production of footwear in million pairs in (2013-2017)



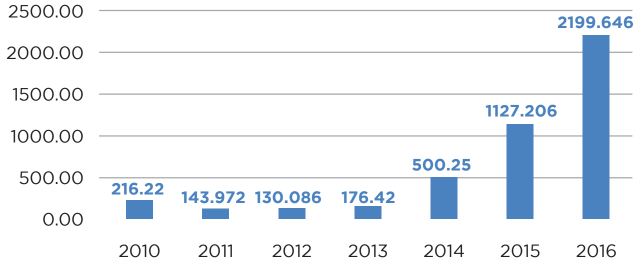
Source: LIDI 2017

Figure 12 Ethiopia's total export of footwear in USD ('000) (2013-2017)



Source: LIDI 2017

Figure 13 Leather articles export performance in USD ('000)



Source: EP Leather Products Market Analysis, 2017

On a positive note, following the 2012 restrictive export tax on leather, small and medium leather product manufacturers emerged and supplied the domestic market, with some engaging in the export market. This created thousands of employment opportunities. However, the value of the leather articles was low (five percent of shoe exports).

Conclusions on the status of the Ethiopian leather sector

In summary, the Ethiopian leather sector was demonstrating the following:

1. Local tanneries were losing their export market share over time
2. FDIs dominated the finished leather export market, but their export prices were very low
3. Weak performance by local footwear manufacturer/exporters and increasing footwear exports was dominated by FDIs (>80 percent)
4. Poor raw material quality was affecting the quality of end products and further reduced the competitiveness of exports.

Regaining market position would be difficult. However, the disruption was too much for most local tanneries and the market share was lost; only the strongest local tanneries remained competitive. As sales went down and debt rose, local tanneries started voicing their frustration to the government.

These realities, coupled with the global market scenario, required a carefully designed strategy to ensure Ethiopia's continued presence in the global market. There was also the need for industry adjustment to ensure both local and foreign investors co-existed harmoniously. While there had been different interventions by relevant institutions, they were not coordinated and the problem persisted, leading to regular under-target performance (at 42 percent in 2017).

Another key feature of the Ethiopian leather sector was the many government and private sector institutions involved. Relevant government stakeholders included the MOA, MOTI and the Ethiopian Investment Commission. Private sector players included smallholder farmers responsible for animal husbandry (Ethiopia does not have modern commercial ranches), animal traders, raw hide and skin traders, tanneries and product manufacturers.

Getting the sector to move in the right direction meant coordinating the private sector and government actors with clear market-based directions and strategies.

EP support to the leather goods sector

Based on constraints and opportunities identified in its market system analyses, EP implemented multiple technical interventions, mostly with local value chain actors in the three main market systems – the raw hides and skins market, the tanning market and the leather products market. The market system analyses laid the foundation for EP to support the growth of the sector.

EP leather interventions

It took EP some time to finish its analyses and to find the right entry points, but by 2016 EP was driving the following interventions:

2016

Improving tanneries finishing capacity in partnership with leather chemical companies - creating a win-win scenario for both tanneries and chemical companies.

2017

- Improving productivity and business development for tanneries - addressing the weak communication via support market actors (agents) with capacity and incentive from the transaction.
- Supporting footwear production for the export market - in partnership with a support market partner with marketing and business development capacity who worked with local footwear manufacturers.

2017-2019

National leather roadmap developed in partnership with all relevant government institutions and private sector associations, including recommendations for the sector.

2018

- Normative good practices for raw hide and skins quality and supply improvement - in partnership with raw hide and skins traders, worked on improving raw material quality via preservation and handling as well as business engagement with tanneries.
- Supported tanneries to qualify for Leather Working Group (LWG) audit and certification – with an LWG advisor hired for selected tanneries on a cost-sharing arrangement, tanneries worked to improve production operations, environmental compliance and data recording.

2018

Leather-focused investment promotion – in partnership with the EIC, developed a leather-focused information and investment pitch, reaching out to potential investors and managing continuous communication until investment decisions were made.

Most of these interventions involved working directly with the Ethiopian private sector and were successful at the pilot stage. However, the capacity and size of many local firms meant they could not reach scale. The main lesson from these technical interventions was that they did not provide enough incentive for local actors to invest in better and new ways of doing business. In addition, most of the market actors did not have the levels of business organisation needed to survive in an increasingly competitive global market. Companies needed to significantly improve their management structures, production set-up, business development and communication efforts, to compete in a dwindling export market share. Understandably, those in a better position were more open to trying new business models and collaborating.

Establishing a roadmap

While the vision for more value addition in country was a positive one, there were many policy and implementation challenges, exacerbated by changes within the global leather sector. The challenges inside Ethiopia included: no coordinated roadmap to guide the sector in terms of value addition in order to meet the ever-changing global market requirements; unrealistic expectations in terms of how quickly local tanneries could ramp up, which resulted in exporters being pushed into markets they were not prepared to enter; and foreign exchange shortages (leading to black market rates) which meant local tanneries could not access imported inputs and profitability was reduced.

The regulatory push (150 percent restrictive export tax) for more value addition in tanneries and the leather goods sector came with a massive under-estimation of the time and resources (technical, financial and managerial) needed to upgrade and meet technical and market requirements. This was evident within government and the private sector. With significant change required to adjust to the new reality, appropriate support activities were needed. Though the government did provide some technical assistance to local tanneries, it was not well executed and ignored the access to markets component, which was critical for local tanneries to thrive in the changing market.

Although these challenges were recognised and discussed in different forums, there was no coordinated effort to address the problem in a systemic manner. The private sector association was weak and did not present organised facts, figures and demands to government. The private sector and the government held extreme opinions and conversations were often heated. Some even felt betrayed by the government and policy environment.

An independent body that could identify and present facts and recommend action was required. EP focused on advocating for the government to review its strategy and develop a clear roadmap.

In 2017, EP encouraged the government to develop a national roadmap as the underlying document for the leather strategy. Convincing the government was not easy. The GoE felt they had a strategy and numerous studies. While many studies had been done, some with very good recommendations, they lacked the full ownership of implementing institutions which meant strategies and recommendations were not pursued.

To convince the government a roadmap was needed, EP engaged in a stocktake and reviewed all documents done on the leather sector, laid out what their specific recommendations were and their status. Seeking updates from within the ministries regarding who was following up on the various recommendations was difficult. The responsibilities for implementing the recommendations spanned across many institutions and there was no central body coordinating the different efforts, including those from the various development partners. Many studies were sitting on bookshelves and had not resulted in changes. There was no organisation accountable for ensuring the right policies were in place and that activities were monitored and managed proactively.

How did EP help change the rules?

Step 1 – Convincing and bringing the government on board using evidence and analysis

As a first step, EP shared facts and evidence based on what was tried in its technical interventions. The programme demonstrated how partners responded (or could not respond) to required changes and the severity of the situation in some cases. If the status quo remained, local Ethiopian tanneries and leather goods firms would be excluded from the global market. For example, with stringent environmental and quality pressures in the global market, even the most successful local tannery in Ethiopia was not meeting expected standards. In addition, EP's export data analysis showed that export prices were much lower than the global average – running counter to government policy objectives – and were not socially and environmentally compliant. Both issues had not been addressed by the government in a meaningful way.

Similarly, the changing global industry required changes to Ethiopia's strategy. These issues were presented to all relevant government institutions. Meetings were held with MoTI, EP's government counterpart, to discuss the main issues identified. Pressure resulting from poor export performance necessitated action. Relevant government bodies, the MOA, the EIC, and the Ethiopian Leather Industries Development Institute (LIDI) agreed to explore the leather sector in partnership with EP with a view to understanding Ethiopia's global market position and the challenges faced, ultimately generating recommendations for bold measures to competitiveness and performance.

Step 2 – Promoting ownership by the government by taking a facilitative role

Once there was agreement, it was necessary to conduct a full-fledged study. MOTI took ownership of the roadmap development work. It was convinced of the need to do this work in collaboration with all concerned stakeholders including MOTI, LIDI, EIC, the MOA and the Ethiopian Leather Industries Association (ELIA). MOTI called all relevant government institutions and the private sector into a kick-off meeting to discuss the need to develop the roadmap. EP was also brought onboard as a development partner to provide technical and financial support.

During the kick-off meeting, two levels of committees were established to lead the work: a Strategic Steering Committee (SSC) and a Technical Level Committee (refer Figure 14), with one focal person from each institution. The SSC was composed of the MOTI State Minister, the EIC Deputy Commissioner, the LIDI Director General, the ELIA President and the EP Team Leader to oversee and guide the project. The Technical Level Committee involved directors from MOTI, EIC and LIDI and an EP Intervention Manager. It was entrusted with hiring external consultants, reviewing and monitoring their work and seeking data from represented institutions. EP paid for the consultants while each government partner contributed staff time to the study.

Figure 14 Project team structure

This set-up kept the main government implementing bodies engaged in the roadmap development process. It ensured they appreciated the problem, understood and owned the process and recommendations. It also made sure the recommendations were fully internalised by their respective institutions for fast and effective implementation.

This participatory process was an ingredient that had been lacking before, when studies were done by consultants, validated in a workshop and put on the shelf. It made sure that all the market and government actors were engaged at each step and implementing institutions were held to account.

While the process addressed ownership and accountability, it was not seamless. A committee of busy government officials was an administrative challenge and a hindrance to moving quickly to next steps. Ensuring everyone was technically aligned was time consuming. Different assignments undertaken by different institutions needed strong coordination and organisation to ensure they fed into the strategy.

The process included reporting and feedback mechanisms. At different stages of the roadmap development, industry-wide validation workshops allowed participants to provide critical input. These workshops, while often involving heated discussions, revealed important points to the study team, who would follow-up with participants.

As this took more time and coordination than anticipated, and with a number of government officials reshuffled, the process risked losing momentum. One critical factor was having an active government counterpart champion to lead with energy and passion; this team had different champions at different times. An assessment of the process revealed there were times where energy was low and things were not moving as fast as the team wanted, and frustration piled up due to lags in ownership.

Step 3 – Supporting the implementation

While supporting the roadmap development as per above, EP continued working with government and other stakeholders on the implementation of recommendations. The roadmap development often generated consensus on urgent actions which EP could support.

These included:

- EP provided an advisor to the State Minister at MOTI as most of the recommendations fell to MOTI to implement. The advisor supported MOTI to draft memos for all immediate and short-term recommendations. This facilitated the removal of export tax on semi-processed leather for local tanneries only. The advisor also supported the Ministry to ensure medium- and long-term plans were included in the Ministry's annual planning and budget.
- The roadmap was printed as a book and distributed among relevant government bodies at federal and regional levels.
- EP hired an advisor to the EIC, whose role included advising the EIC leather team on proactive and leather-focused investment promotion and reaching out to potential investors worldwide using targeted and timely information.
- EP launched an environmental compliance intervention, supporting tanneries with an LWG-led audit preparation and certification.

What has changed as a result?

The GoE now had a clear set of policy recommendations and guidance for implementation. Recommendations were broken down by priority (urgent, short-term, medium-term and long-term) and the following five technical thematic areas.

- **Production and export**
- **Investment**
- **Input supply**
- **Environment and social compliance**
- **Institutional coordination**

The government started responding to the road map. Which was completed in December 2018 and validated in May 2019.

Below are key recommendations for rule changes and government investment. Most were targeted at the leather tanning level in order to upgrade business opportunities for local firms, but also to stimulate sales through improved ability to meet international standards.

At the leather tanning level

Recommendations addressed internal pollution controls as well as policy changes to stimulate exports. They included:

- Remove an existing export tax levied on wet-blue and pickle (for local tanneries only, not FDI firms)
- Establish a value-based export incentive scheme with strict regulations
- Incentivise indirect exporters
- Establish an accountable body to introduce regulatory and monitoring systems for export prices to ensure no transfer pricing
- Government to construct a common effluent treatment plant in leather industrial parks or subsidise the plant's of private park developers
- Cost-sharing: federal and regional government to provide subsidies for the construction of an effluent treatment plant (50 percent of secondary treatment plants and 75 percent of tertiary treatment plants)
- Conduct feasibility studies of alternative products developed from solid waste and incentivise firms with potential to engage in production
- Provide industrial zone space firms to engage in recycling solid waste
- Government to build industrial waste landfill areas and charge for the service
- Provide soft loans to firms that upgraded technology to minimise sludge and chrome recovery techniques
- Implement a public private partnership for the development of waste-to-energy schemes (organic waste to produce biogas or electricity).

At the leather goods level

- Encourage FDI in the downstream (leather goods products) sector; discourage FDI in tanning except in an integrated form
- Allow FDI firms to sell their in-house manufactured inputs/accessories to local leather goods industries, rather than only exporting.

At the raw hides and skins level

- Extend nation-wide animal health extension programs to curb declining raw material quality
- Reinforce raw hide and skins extension services and regulatory services at collectors and/or trader level
- Introduce standard operating procedures at slaughterhouses and traders.

The removal of restrictive tax on semi-finished export for local tanneries was the first rule change after the validation of the roadmap in May 2019. This required heavy, closed-door discussions among relevant government offices. Following this change, tanneries reported buyers were demanding semi-processed leather. However, as discussed, regaining lost markets is not an easy and quick process, so the tanneries would not be looking at a massive increase in the export of semi-processed leather in the near term.

At the time of writing, priority recommendations were with relevant decision-making bodies for approval. The medium and long-term recommendations had been entered into the workplans of implementing institutions.

Another achievement of this work was that it brought the private sector and government closer to discuss matters of mutual importance. The private sector reportedly felt heard and engaged more proactively with the government and vice versa.

Conclusions on partnership characteristics needed to change the rules

EP's partnerships with both the private sector and the government to develop a leather sector road map were underpinned by the following characteristics:

- EP worked with all parties to establish itself as a non-judgmental and neutral partner to support the industry. This built trust and credibility.
- Because of this credibility, EP was able to play a facilitative convener role. It kept the ownership in the hands of government and ensured the presence of feedback loops with market actors. EP ensured necessary information was collected and made available to all parties to keep the process transparent. As the original rules surrounding the promotion of the leather sector had been set by government without effective consultation with the private sector, there was much conflict between the two parties. EP was able to establish constructive dialogue and helped put in place a structure that ensured monitoring by both parties.
- EP was always present and ready to respond with any support to keep the process moving forward. It provided financial and human resources management support throughout and kept the process moving forward by identifying different champions at different times.
- Developing a strategy, particularly for a sector with a long value chain involving many stakeholders with different backgrounds and different incentives, takes time. The process was successfully completed because of the long-term relationships built and the buy-in and ownership of relevant stakeholders.

Conclusions

The two cases presented in this study highlight the complexities of developing and implementing an effective national strategy that cuts across many inter-linked sub-sectors. While the GoE had a clear vision for the sectors' growth and evolution, the technicians designing the policies did not always understand the incentives and capacities that were required to align market actors. Only by aligning incentives would everyone work toward a common goal and strategically apply their core competencies. While these two mini case studies highlight the participatory process used by EP with government, it was also applied in other scenarios by the programme.

EP's early diagnostic work highlighted a number of challenges within the supporting market systems for the cotton and leather sub-sectors that limited their competitiveness. EP implemented activities focused on removing key constraints on the services side and internal relationships within the value chain, knowing full well it would be doing so in a distorted and fragmented policy environment. However, as the supporting market systems began to function better, it became apparent that government policies needed to evolve to reflect the business reality in the value chains and to create proper incentive structures to promote effective growth. The policies had been set without sufficient dialogue and consultation with the private sector which meant they did not take into account the private sector's capacity to respond. Fixing specific market systems that support a sector, while necessary, is not sufficient to achieve transformation if the enabling environment does not provide incentives and a framework for behaviour change.

EP's process of fixing the specific supporting systems built trust between the project, government agencies and the private sector and provided an evidence base used to help government understand the issues and the need for clearer strategies and policies. EP was able to help sector stakeholders drive a policy review and change process to create a more conducive environment. EP also built consensus on the need for policy change, and helped to re-configure the institutional arrangements needed within government and between government and the private sector to put new policies into practice. It applied the below approaches to build buy-in by ensuring government led the process, and that stakeholders collaborated to effect change.

Building an evidence base and building relationships

In the process of implementing the initial interventions, EP developed a deep understanding of the challenges and issues in each sub-sector. It learned about the roles and relationships of various stakeholders supporting the sectors and engaged them in the design of specific interventions. It then implemented effective interventions which achieved change at some levels of the value chains, but usually proved to be insufficient to stimulate sector-wide change due to missing or distorting policies. However, those interventions showed that change could work.

EP carried out political economy analyses to understand the power relationships between various sector actors and the incentives (or disincentives) to change their approaches to collaboration. With a political economy analysis, EP could understand who would win from changes in behaviour and who would lose, which helped informed the development of strategies to ensure everyone would win.

EP built strong relations with all stakeholders in the value chain, including the government institutions charged with managing them. This ensured stakeholders shared in the modest early successes, but also allowed them to see first-hand the underlying challenges that were preventing the sectors from reaching their potential. The use of the TWG in the cotton sector proved an effective tool which was then replicated in other sectors where EP wanted to speed up the government's traction.

Developing a participatory process

Working with a cohesive group of public and private stakeholders which understood the problems, EP assisted them to develop a participatory process that would build buy-in from the most important political actors. This process would inform stakeholders of the specific problems and why the policies were not sufficient.

In all cases, government buy-in to the process and its progression was due to champions from within government. For even with some political will to institute change, there was a need for explicit champions for change at the highest level to drive the process and ensure all government participants were genuinely engaged.

The participatory process was always formalised in an MoU between EP and the relevant stakeholders. The MoUs outlined the process, the roles and responsibilities of each party, and their allocation of human and financial resources. EP was always willing to support but needed strong and documented buy-in from the government participants, especially since they might come from several different ministries or agencies.

Establishing a common understanding and giving voice to all stakeholders

Once commitment to the process was gained, the next step was to ensure everyone had the same information so that they could reach common conclusions. This research needed to be carried out by all stakeholders (technical working group members) together with technical experts, so that all were working with the same information and knowledge and participated in drawing the conclusions. This process of carrying out the underlying analysis often took up to one year.

Of equal importance was providing a platform and transparent process to give the private sector voice in the policy and strategy development, as it had been largely left out of the initial policy formulation. By including the private sector in the analysis and giving them voice with government, the new strategies were more realistic and policies better reflected the private sector's capacity and its potential to respond.

Flexible and responsive facilitation support structure to push process forward

With the GoE owning the process, EP's main role was to support. Government needed to make all critical decisions while EP supported the common analysis, ensuring that government experts got into the field to come up with the right policies. This was not a short-term process, and required two years of work and continuous effort to maintain momentum.

EP provided flexible support to facilitate the strategy development process. With DFID's approval, EP paid for the secretariats and external consultants required to complete the analysis. It financed joint meetings to review progress and develop the strategies. Whenever the government decided that additional elements were needed EP would support, as long as those elements would push the process forward.

Ensuring follow up to the strategy development process

While EP assisted the government to elaborate strategies and design new policies, it also worked within the new strategic frameworks to help the government develop the tools and the specific policies or regulations needed to deliver the strategies, which were then incorporated into the Government's implementation. This became an example of how the regulations could be implemented by facilitating government follow-up who would then either implement regulations or enlist support from other organisations.

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