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DEVELOPMENT COOPERATION

**Market Assessment on the market
system for leather products (Draft
Report)**

People in Need, 2018

PROJECT

Increasing Employment of Young Women and Men in Leather Sector through Improved Quality of Vocational Education and Support for Business in SNNPR, Ethiopia.

TARGET AREAS

Soddo town in Wolayta and Dilla town in Geddo Zone, SNNPR, Ethiopia

Market Assessment on Leather Goods

Soddo in Wolayta, Dilla town in Gedeo Zone, SNNPR, Ethiopia

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Acronyms and Abbreviations

Dabu Capital	Debub Capital Goods Finance Business S.C.
GOs	Governmental Organizations
HPC	Hawassa Polytechnic College
Kebele	The lowest level administration unit with elected government
LIDI	Leather Industry Development Institute
MFI	(OMO) Micro Finance Institution
MSE	Micro and small enterprise
NGO	Non-Governmental Organization
PIN	People in Need
PWD	Person with Disabilities
T&I Office	Trade & Industry Office
TVET	Technical and Vocational Education and Training
W&Ch Office	Women & Children Office
Woreda	The third level administration unit, consists of kebeles
WS	Workshop

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BACKGROUND

In April 2018, People in Need (PIN) conducted market survey for the project: *“Support Leather Sector Micro and Small Enterprises in Wolaytta Soddo and Dilla Towns of SNNPR, Ethiopia, 2018–2019”*. The project funded by Czech Republic Development Cooperation is implemented by PIN in Soddo town in Wolayta and Dilla town in Gedeo Zone, SNNPR, Ethiopia. PIN has been operating in leather sector in Ethiopia since 2011 when the first project supported by the Czech Republic Development Cooperation started. The proposed project therefore builds on previous interventions, experience gained and contacts with relevant stakeholders.

PROJECT SUMMARY

The project aims to increase employability and entrepreneurial opportunities for unemployed young women and men through vocational training and business support in the leather sector in Ethiopia. Its specific objective is to put in place effective market system to attract customers and create value chain for leather MSEs through support of TVET actors in Wolayta and Gedeo Zones, SNNPR Ethiopia. Geographically the project covers Dilla and Wolayita Soddo Towns, in Gedeo Zone and Wolayita zone respectively. The project works in partnership with GOs and other organizations, which work towards increasing employment of youth women and men.

The project is thus focusing on the following.

- **Enhancing accessibility to vocational training** in the field of leather production and a consequent **increase in the number of skilled workers**. Within this component, required facilities will be fulfilled and capacities of instructors will be updated in the field.
- **Strengthening of vocational and entrepreneurial skills and capacities of small businesses** through specially adapted trainings in cooperation with local institutional partners. In addition, relevant partners from the large leather enterprises will be included in the project; they can become employers of trained young people who could not find employment in their own business.
- **Help in promoting the services provided** by small or newly established MSEs, designing the marketing strategies and working towards improvement of incomes generated through sales of leather products, increasing the awareness of people about availability of leather products
- **Raising awareness of small entrepreneurs** about government support programs in intensive cooperation with the relevant local institutions and facilitation of contacts between entrepreneurs with microfinance institutions, as a practical component of the planned training.

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- **Strengthening the institutional capacity of local partners** in the areas of training, equipment and supply of adapted training materials.
- **Promoting of cooperation and networking** of relevant local institutions, especially in the creation of a program to increase capacities.

The project is fully in line with government development strategies for the sector, it was extensively consulted with all the aforementioned key stakeholders (authorities) who had repeatedly expressed their support.

As a result, families of small entrepreneurs, unemployed and disabled people, who will get new or higher incomes due to the project, in average 5 per household. **750** family members of the people who will obtain livelihood in the leather sector until the end of the project. We expect that at the end of the project this number will increase by **150** each year.

MARKET SURVEY'S OBJECTIVE

The market assessment aimed on the following specific objectives:

- a) To reconfirm /update our knowledge of the market on leather products
- b) To identify key challenges, market opportunities, marketing strategies of MSEs
- c) Analyze the market for short and long term TVET graduates of TVET the leather sector in order to provide recommendations on how the project and other key actors can enhance employability

MARKET SURVEY'S METHODOLOGY

The market survey's methodology was informed by a range of different guidance, including Practical Action's Participatory Market System Development (PMSD)¹, approach to inclusive markets, and the Operational Guide for the Making Markets Work for the Poor approach² The assessment was conducted by PINs project team, with advisory support from PINs Technical Advisors.

The following sources of information and approaches were used in the market assessment:

- Review of secondary data: Government studies and evaluations, previous PIN assessments, assessments by other actors of the leather sector
- Field observations of the SMEs (e.g. reviewing their shops, promotional materials, bookkeeping)

¹ <http://policy.practicalaction.org/policy-themes/markets/participatory-market-systems-development>

² <https://beamexchange.org/resources/167/>

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- Interviews with PINs project team, who have good existing knowledge of the leather sector
- 13 Key informant interviews with a range of different government and market actors³

Focus Group Discussions with the supported SMEs (this involved conducting a Strengths, Weaknesses, Opportunities, and Threats SWOT analysis with the SMEs, a customer segmentation, and a competitors' analysis). A participatory reflection was then facilitated by PINs project team to share the initial findings of the market assessment with key stakeholders (19 participants joined, from DTI, Tvet colleges, MSES, DOT) and discuss and agree on next steps to strengthen the leather market system.

The market assessment covered the following sections:

1. Market Mapping
2. Description of key actors
3. Key constraints and opportunities in the market system, and recommendations for implementation

Market mapping

The following 'market actors map' shows the key actors in the leather market system and the relationship between them. Market actors in the core value chain are in the center, actors providing supporting functions are across the bottom, and actors involved in the rules/environment functions are across the top. The project team reviewed / updated the market map based on the new market information (since the last market assessment was conducted), and there were no significant changes.

³ Actors interviewed: PIN project/program managers, officers, MSES (including previously supported MSES in Awassa), Soddo T&I Office, , Soddo Polytechnic College, Dilla TVET College, Customers, Dilla T&I Office, MSE Bakur, LIDI, local sellers, local wholesalers

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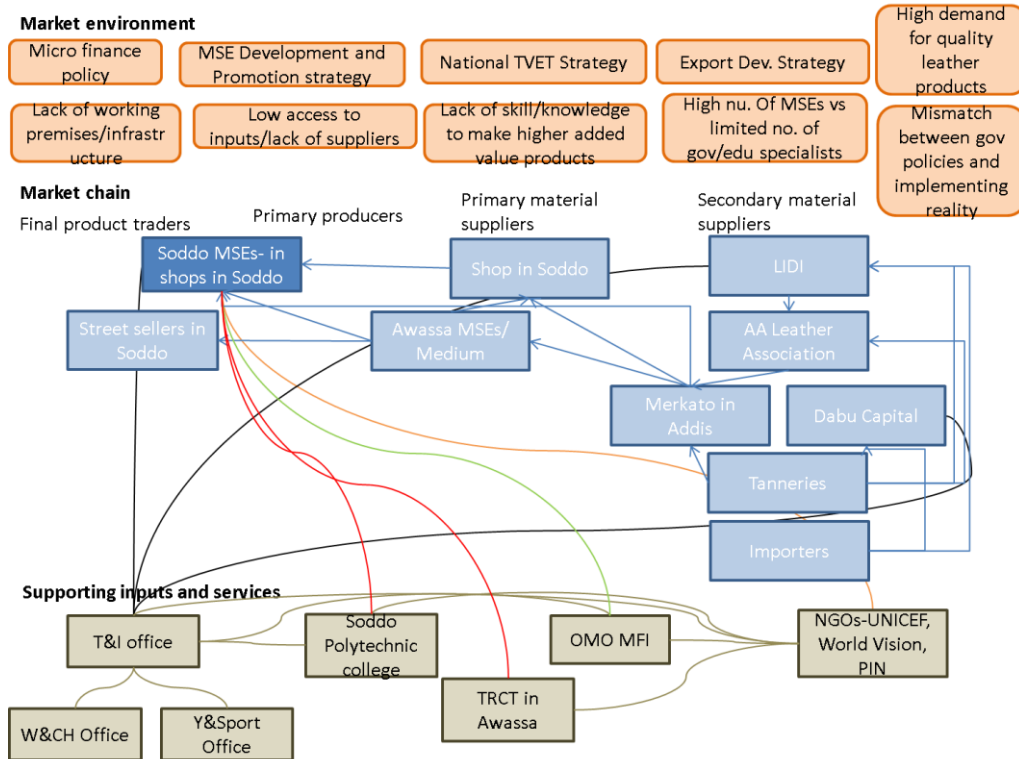
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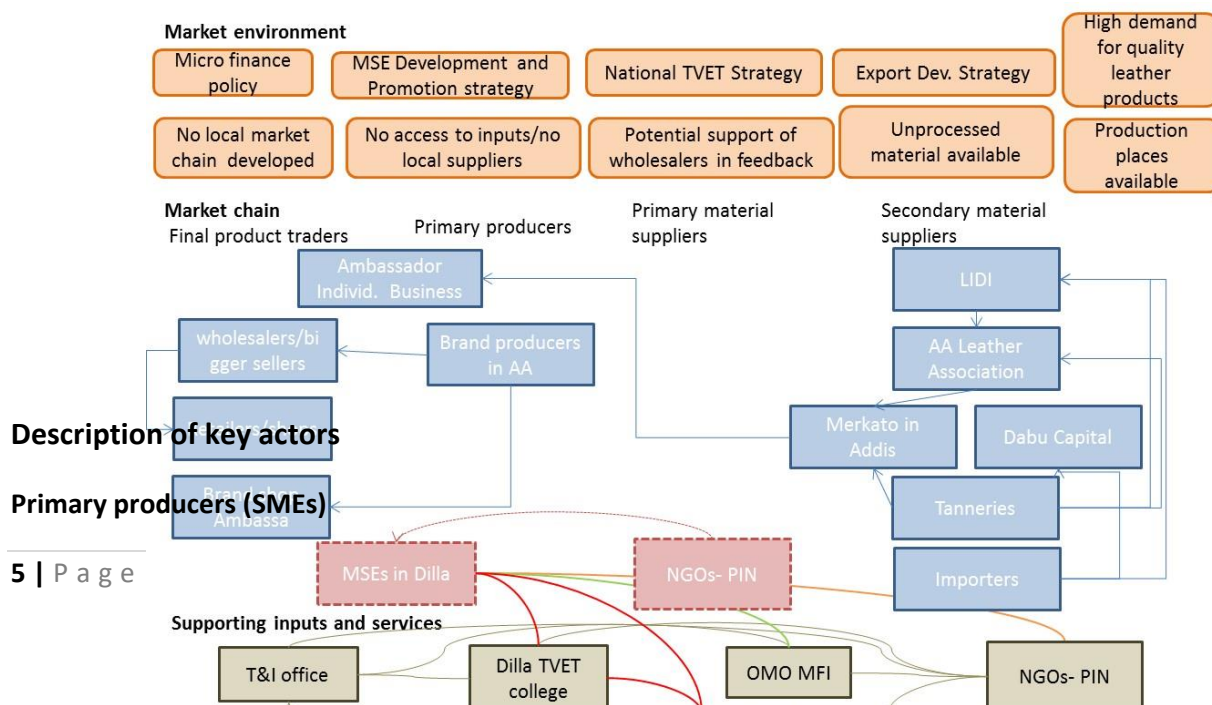


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Soddo town Market Map



Dilla Market Map



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In total, there are 12 functional MSEs focused on leather products production that have been established by PIN, 6 in Soddo, and 6 in Dilla.

DTI: Department of Trade and Industry Office, which is responsible for majority of tasks related to MSEs – from establishment, providing working and selling premises, market-linkage support, and follow up on the MSEs work.

OMO MFI: is responsible for coordination and provision of credit services.

Soddo Polytechnic College and Dilla TVET College: are involved in providing technical training to youth. The trainers provide long and short term trainings for selected people interested in the leather business.

Raw material and tools & machineries suppliers

All main material and machineries suppliers are based in or around Addis Ababa.

Leather Industry Development Institute (LIDI)

- LIDI's main objective is to facilitate the development and transfer of leather and leather product industries' technologies. It is the key provider of supporting inputs and services for MSEs and leather industry itself. LIDI has direct connection to the machineries importers or tanneries. MSEs have access to LIDI through Trade & Industry Offices (where MSEs can ask for arranging purchase of processed leather), leather sectoral associations or NGOs.

Tanneries

- There are 29⁴ tanneries in Ethiopia, none in SNNPR. Tanneries⁵ focus mainly on bulk sales and export of processed leather, MSEs don't have direct connection with them at the moment. But there is a possibility for developed leather sectoral associations to negotiate with tanneries about regular bulk supplies.

Importers of tools and machineries

- Electric sewing machines and some other types of machineries are not accessible in Ethiopia and must be imported. The importing process usually takes 6- 12 months. MSEs have several possibilities how to get this equipment:

⁴ http://www.elidi.org/Contents_Eng/TanningIndustries.aspx

⁵ Regarding gathering leather for processing, each tannery has its own value chain. In general, about 80% of all hides and skins entering the formal market are from rural areas where they are collected by private traders. The remaining 20% are derived from slaughtering facilities in major towns and cities. There are about 1500 registered private traders dealing in raw hides and skins an important force in the industry through the operation of rural operation network supplying raw hides and skins through long chain (small collectors, small traders, middle and heavy suppliers) to the tanneries in the country. More at: <http://www.elia.org.et/leather-sector/>

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- MSE can apply for the machine at the Trade & Industry Office after it saves 50 % of price of the machine. T&I Office then coordinates the importing process through Debub Capital Goods Finance Business S.C.
- MSE can cooperate with NGOs (if present in the locality), which then coordinate the importing process in cooperation with different governmental offices.
- MSE is organized in a sectoral association, which then could negotiate with governmental offices on behalf of the MSE.

Addis Ababa Leather Sectoral Association – leather from LIDI and tanneries

- Leather sectoral association is not a supplier itself, but it organizes leather enterprises and associations. As a representative of MSEs, it can negotiate with suppliers such as tanneries directly about a bulk purchase of processed material. It can also negotiate with LIDI and other governmental bodies about purchase of machineries.

Merkato in Addis Ababa

- Merkato is a market in Addis Ababa, which the only option for MSEs, where they can buy directly different types of raw materials of good quality and hand tools for reasonable prices. This option is used only by one MSE in the Soddo as it is connected with high travel costs and availability of working capital.
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Key market actors – power and influence analysis

As shown in the table, the actors with high influence and high relevance are mainly the governmental bodies providing supporting inputs and services to MSEs.

Power and influence	High		Trade & Industry Office Soddo Polytechnic College Dilla TVET College LIDI SNNPR TRTC/HPC OMO MFI
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	Low	Women & Children Office Youth & Sport Office	Government regulators (e.g. Ministry of Industry) Chamber of Commerce/Sectoral Association (potential, no at the moment) PIN/ other NGOs (potential) Leather MSEs in Soddo /Dilla (potential) Leather MSEs in Hawassa Leather suppliers in Soddo Sellers and wholesalers in Dilla and Soddo
		Low	High
		Relevance	

Customers

Current customers: Current customers are mostly local residents. The most common customer profiles are university students and government employees an example of the customer segmentation analysis (conducted with the SMEs) is shown in the table below. This process was used to assist the SMEs reflect on who their main customers are, and how they could reach them more effectively.

Current promotion/marketing strategy: SMEs are utilising a range of different promotion strategies, including mobile-selling (walking with sample products to promote them to potential customers), selling through other established retailers, displaying products at the shop, MSE sometimes also participate at the market bazaars. During the market assessment, MSEs were also supported to analyse their main competitors, their strengths and weaknesses, and their marketing strategies, to come up with ideas on how they can be more effective at promotion and marketing of their products.

Customers' Segmentation (example from an MSE in Soddo):

Segment	Description	Why they would buy from us	Products they are interested in	Seasonality	No. of customers (month)	Profit in ETB (month)	% share on profit	Which is growing the most?
University students	Male, 18-25	Quality, price	Bags	Sept	4 per week (12 per month)	150birr per bag (so 1800)	30%	

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						birr per month – 12 bags sold)		
Government employees	Male	Quality and price	Belt , bag	All year round	10/15 belts per week (60 per month)	(80 birr per belt) 600-800 birr per month	15/20%	This is a growing category of customer
Street sellers	Mobile sellers	Quality and price	Keychains	Year round	2 per month (they restock)		20%	These re-sellers are growing the most
Drivers	Male	Quality and price					20%	
Others (people travelling through)		Quality and price					10%	

Potential situation (if MSEs are able to produce products in quality demanded on the market)

Potential customers	Potential sellers	Products they are interested in
Men in general	Own shops, markets, exhibitions, bazaars, other shops for commission, street sellers	Shoes, jackets, belts, bags, wallets
Factory workers	Direct offer to factories (also through selected sellers)	Working gloves, working shoes
Young/university students	Direct selling/offer at/around universities, markets, exhibitions	Shoes, jackets, belts, bags (for notebooks), wallets
Women	Own shops, markets, exhibitions, bazaars, other shops for commission, street sellers	Shoes, belts, bags, purses, wallets
Police/ soldiers	Own shops, markets, exhibitions, bazaars, other shops for commission, street sellers	Belts, gun holders
PWDs	NGOs, Disability association	Special shoes and equipment

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NGOs	Direct offer to NGOs	Bags for notebooks, equipment needed for beneficiaries
Soddo: Tourists – focus on Arba Minch	hotel shops in Arba Minch	Garment, shoes, belts, bags, souvenirs with ethnic motives
Sellers for other towns	Own shops, exhibitions, bazaars	Shoes, jackets, belts, bags, wallets

Capacities, constraints and incentives

To understand how and why the market system is not functioning effectively for the target poor, it is necessary to understand the capacities and constraints related to each of the market actors and market system functions, and the underlying constraints preventing the market system from functioning effectively. Understanding the incentives of the different actors is also crucial as a first step in identifying opportunities to stimulate change.

Summary of key constraints faced by the new SMEs:

- Irregular, difficult and costly access to needed raw materials;
 - limited capacities with design skills and with producing good quality products (esp. with shoe-making in Soddo where limited training has been provided on this topic);
 - lack of established market channels/networks through which to sell their products (the opportunities for this exist, but the relationships/links have not yet been developed);
 - lack of electricity access limiting the productive capacity of SMEs (in Dila);
- Limited capital to upgrade and upscale production (the loans taken from OMO are useful but small)

Key opportunities:

- Open markets (Sunday Markets, Bazaar's) have been the most effective way for other successful leather SMEs to generate market linkages and new sales channels, DTI plan to commence organising these in Dila and Soddo and involving the new SMEs.
- Most effective sales channels are through links with other retailers (e.g. successful SMEs in Awassa only sell a small proportion of their overall products through their own shop sales (less than 5%), most sales are through other existing retailers and open market events.
- There is a strong interest from the strong MSEs in Awassa to establish further linkages with the new SMEs (this would provide the new SMEs with access to embedded advisory services on needed skills). Current supported SMEs seem to have good motivation/passion for their involvement in the industry (selection process of these SMEs seems to have been done well, with a lower drop-out rate than under the previous project)

Key Recommendations to strengthen market opportunities

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- Facilitate greater **business to business linkages**, for learning and market linkages (e.g. between SMEs in Awasa and those in Soddo/Dilla). Previously supported MSEs in Awasa are currently very successful (e.g. Yebetal has 400K ETB/month sales revenue, has 27 full time staff, and is supplying to retailers in Addis). The Awasa MSEs have said they would be willing to sell their products through these new SMEs and as part of this to provide embedded advisory services to them (e.g. on design skills, business management etc). As planned in the project document, the project should help to facilitate these linkages (e.g. through additional experience sharing visits, explanation of the potential benefits to the new SMEs etc)
- Coordinate **closely with DTI to plan Bazaar's** in Dilla and Soddo where SMEs can display their products (and work with the SMEs to prepare them for these events through preparation of the relevant promotional tools, e.g. business cards and leaflets displaying their products and services). Explore possibilities for SMEs themselves to organize a Sunday Market themselves in case DTI does not seem to be moving on this.
- Strengthen ongoing **coordination and support from DTI to the SMEs, which is critical to sustainability** (facilitating joint monitoring visits to the SMEs operations/products, regular meetings (on a monthly or quarterly basis as appropriate) by the project team and relevant DTI officials; involvement of DTI officials in trainings provided to SMEs etc).
- Follow up closely with DTI and other relevant govt. authorities on the **power supply issue** for the Dila SMEs
- Facilitate additional training on **business skills (potentially through DOT NGO)**. DOT have extensive experience strengthening youth entrepreneurship, and the Awassa MSEs that received training from them provided good feedback on its usefulness to them. PINs project team should meet with DOT to develop a customised training to address the main gaps identified in the business competencies of the SMEs (this capacity assessment can be part of DOTs contract, along with support for follow up monitoring tools). One of the outputs of this training is that PIN can gain access to the range of training materials/guidelines that are used by DOT, for future training and follow-up purposes. One of the outputs of engaging DOT should be discussion on the most appropriate technical support to **improve the branding and promotion techniques of the SMEs** (e.g. developing business cards, logos, stickers, improved billboards and signage).
- Before the project invests resources into the **sectoral association development**, the project team should coordinate closely with government counterparts to **better understand and reflect on the lessons learned with the sectoral association development in Awassa** – the association we supported there is currently not functioning (some of the reasons given for its challenges were: lack of consistent follow and support– when the project ended, the leader resigned, members being too busy to attend). Support for association development needs to

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first clearly analyze the potential benefits that the association will provide to its members, their willingness/incentives to participate in it, the key responsibilities of the various actors involved, the resources it needs to function and where these will come from (and the exit strategy in case we decide to fund some of its operations).

- Develop a clear vision for sustainability (i.e. who are the best actors to be providing which types of support, who has the **capacities** and **incentives** to continue to provide these type of support after PIN is gone etc).
- **Review and revise the current tools** PIN are using to **measure and track the performance of the SMEs** (use of simple checklist to monitor the key competencies – so PIN can better understand their performance over time, their capacity building gaps, and the impacts of any capacity building support we are providing).
- Ensure that there are **strong linkages** in place for leather SMEs to access needed raw materials from Addis (as they received their first materials from the project, they require the contacts and product information for ordering more materials)



SWOT ANALYSIS WITH SUMMARY SMEs in Sodo (11 people, all men, 1 expert from DTI)

INTERNAL FACTORS

STRENGTHS (+)

- MSE Team was formed/established based on their interests – they have good motivation
- Copying the design of Chinese products and other imported products
- Trying to satisfy the customers with low prices
- Very good financial management skills – as the different members of the SMEs has different skills/background, this helps us to achieve our goals
- Effectively managing their time
- if there is a dispute within the group – they will have a meeting to resolve it (and keeping minutes of every meeting)
- integrating with government officials (they may come and give support – and for collecting data and reporting etc)
- make their own products (opp. for job creation)

WEAKNESSES (-)

- Delay in production – time management (some members)
- Poor Quality of design
- Promotion and market linkages
- Low aggressiveness/motivation to work
- Skills and capacity (design)
- Lack of skills on specific tasks they were not trained on that they need to do (e.g. regarding shoe-making)
- Quality of materials
- Customer handling/services
- TVET training on design aspects is poor (some gaps in this, esp. with sho-making etc)

EXTERNAL FACTORS

• OPPORTUNITIES (+)

- Access to credit (through OMO)
- Raw materials donated by PIN (for them to start)
- Market opportunity for the products (high demand) – e.g. markets surrounding Sodo town (can work through private shops for distribution),
- need to communicate with DTI to start the Sunday markets again
- Development partners supporting the sector
- Selling place (shed that was given by PIN and land by the govt.)

THREATS (-)

- Place they are working in (shop) may be wanted by the government in the future for other investment purposes (currently they are not paying rent there) – most likely after 5 years (as under the govt. system they will be considered medium enterprise and will no longer have access to the benefits that small enterprises can get).
- Access to raw materials
- Financial support (loan is too small)
- Electric Power supply for the machineries

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ANALYSIS SUMMARY

Reflection on the session: learned about which products provide the most profits/income. They got the opportunity to see their business in a new way, consider the threats and opportunities. They found it useful to identify- who is their main customer, which is the most profitable product (keyholder). The business connections/cooperation is good between the Sodo SMEs (likely good incentives for further cooperation – through an assoc.).