

# ETHIOPIA

SCOPING REPORT 2017



# I | Contents



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## Letter

From The Editor **4**

---

## Designers

Zaaf **8**

Mafi **14**

Meron By

Leather Exotica **20**

Lali **27**

Paradise Fashion **30**

Yefikir **35**



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**Production:**  
Textiles &  
Techniques **39**

---

**Government**  
& Tax **43**

---

**Access**  
To Finance **45**

---

**Highlight:** Ethiopia's  
Leather Sector Policy  
Environment **47**



# Letter FROM THE EDITOR





Over the last decade, the Ethiopian government has been taking strategic steps to meet their ambition to become Africa's leader in light manufacturing by 2025<sup>1</sup>. This includes becoming the biggest and most attractive sourcing nation on the African continent and a definite competitor at the global scale. Ethiopia is offering multiple tax breaks to export-focused manufacturers setting up in the country: zero rated export tax, 5 years income tax exemption for expatriates, and up to a decade of the same for companies.

Additionally, they have some of the cheapest power in the world, and some of the lowest land lease rates. They're also ready to provide raw material: 3 million hectares of land are suitable for the growth of cotton, with the government solidly behind a radical 5 year cotton development strategy as part of Vision 2025. H&M, the fast fashion giant, have already opened an office in the country, and have begun scoping for garment production. The large fashion holding company PVH (who have Speedo, Calvin Klein, Tommy Hilfiger and Arrow among the brands in their portfolio) have taken up a number of sheds at the new, state-of-the-art Hawassa Industrial Park. With the expansion of the Bole-Lemi Industrial Park and plans for more parks to host more investors, Ethiopia is undoubtedly the most attractive country in which to set up a garment manufacturing unit in Africa, and is well on its way in the industrialisation journey.

<sup>1</sup> (Ethiopia Investment Commission, 2017)





Many of the incentives in place are mostly to attract large scale foreign investment and manufacture goods purely for export. There is however a vibrant and thriving local design scene, creating beautiful garments and leather goods, as well as silver and gold accessories that marry the aesthetics of traditional Ethiopian clothing and urban sensibilities. The likes of Mafi, Paradise Fashion and Yefikir have become household names in Ethiopia, maintaining a balance of local and international clientele. The Hub of Africa Fashion Week started in 2010, and has solidified its position among the top fashion weeks on the continent. HAFW has presented the best in Ethiopian and African design for the past 7 years, and has consistently attracted the attention of Vogue Italia and other international publications.

While walking through Shiromeda (the textile cluster), Piazza (the silver and gold cluster) or Stadium (the leather cluster), it is clear that there has been a deliberate effort to make production and retail of garments and accessories much more efficient for local producers, consumers and tourists. With many efforts to strengthen the 'Made in Ethiopia' brand from artisan level to state level, many of the designers we spoke to expressed a desire for the same level of government incentives and intervention for brands that would like to service the local market. These brands also require business financing and support, ecosystem building and training to enable them to move beyond start-up phase into the growth phase on the path to being mature businesses. This would ready them for market investment, and operating at a larger scale

would greatly decrease their operational costs, and therefore the price of the finished product to the consumer.

The country's ambition to take on more complex garment production in the coming years increases the need for more formal and specialised fashion and textile education, and skills trainings. Many of the designers we spoke to spoke highly of the NEXT design college run by Sara Mohamed, naming it as the key fashion school in Ethiopia. NEXT have trained over 1500 students so far in fashion design and modeling, also offering courses in pattern making, illustration, stitching and fine art. The Leather Development institute has for the last 20 years improved the knowledge of technicians, managers and entrepreneurs, not only in Ethiopia but also in the wider COMESA economic bloc.

The Ethiopian government strategy for the manufacturing sector to lead in their achievement of vision 2025 is admirable, and a clear case study for other African nations looking to be new global sourcing destinations. It will be interesting to see what innovative policy measures will be put in place to make this strategy more inclusive of local fashion and accessory producers wishing to service the local market. Finally, with increased conversations around Africa as a key emerging market, the Ethiopian government have taken significant steps to become an essential sourcing region. As such, it is now up to the AU and COMESA to implement policies geared towards thriving free trade of African lifestyle products by Africans.











A person's arm in a white shirt is visible on the left side of the frame. Below it, a brown leather bag with a ZAAF logo is shown. The logo is a stylized 'Z' and 'A' inside a square, followed by the letters 'ZAAF'. The bag has a strap and a metal clasp.

# ZAAF

Established in 2014 by Abai Schulze, ZAAF (which means “tree” in Amharic) is a luxury leather goods brand based in and manufacturing out of Addis Ababa, Ethiopia. They are best known for their exquisite leather bags that are uniquely detailed with traditional hand woven textiles. ZAAF’s product offering also includes belts, scarves and footwear.

The company begun by servicing the export market due to the multiple government incentives, tax subsidies and general support to do so. They used to stock in the United Kingdom at a concept store called “Style by Africa”. In 2015, they also began to service the local market. ZAAF now has one store in Addis situated next to their workshop.

ZAAF make seasonal collections and produce everything in house, with majority of their raw materials such as leather and cotton being locally sourced. They import some of their hardware—zips, buckles and magnets— from China. These come in duty free, because of a government incentive package for exporters. The logistical process, however, is inordinately long—they have to order at least one year in advance in order to benefit from the tax breaks.

ZAAF is looking to expand and increase their brand awareness on the Continent: they have begun to sell their products in Nairobi, have previously had a pop-up shop in Senegal, and have shot their latest lookbook in Ivory Coast, where they partnered with a local fashion designer. In effort to connect the regional market, ZAAF have also begun to name some of their bags after African towns outside Ethiopia, such as their Lamu tote bag, and also use regional fabrics that are easily identified by their communities of origin, with one example being the Maasai blanket bags. They have also imported fabric from Senegal and created a product range that they intend to sell in another upcoming pop-up there. They are working with the main Apple retailer in Ethiopia on a product range to accompany their laptops and other devices, and also with other corporates to produce customised merchandise.

Majority of ZAAF's clients are women. They had a limited edition menswear collection that mostly comprised wallets and briefcases. Demand in the market is approximated to be roughly 50/50 between local and international consumers, but they are currently collecting data via new internal systems to get a more accurate picture of exactly who their client is.

A major challenge ZAAF face is copying of their unique design. In order to protect their brand, ZAAF use a lining in their pieces that is imprinted with their logo, which has helped in some ways to protect the brand from imitations by marrying the strong visual of the logo with the unique product.

















# MAFI

Mahlet Afework is a former model and rapper, and currently the creative director and founder of Mafi. The fashion house was set-up in 2011 with a focus on women's wear, with their collections being mostly a fusion of contemporary and traditional wear. Mafi's 2017 collection was inspired by the Omo people of Ethiopia, celebrating the strength and independence of the modern Omo woman. Their main client base consists of expatriates and young trendy Ethiopians. Mafi export in small quantities to the United States and Belgium.

Mahlet also recently set-up Alem by Mafi, a fashion brand that focuses mainly on the local market via bespoke garments (which are preferred by a majority of local consumers) and corporate wear, including uniforms. Alem has done very well since its inception, and its income has been used to invest in Mafi's design process.

Mafi currently has one store at a mall in Bole, which is an hour's drive from Addis, and a production workshop at another location. All their production is done in house, but they sometimes outsource minor elements, such as the screen printing that was used in their latest collection. They started working on a shoe line in 2016, having identified a gap in the market for shoes created on the Continent, and are currently constructing a shoe factory 30 kilometers from Addis Ababa.














# Merón

## BY LEATHER EXOTICA



Merón by Leather Exotica was established in 2010 by Merón Seid. A graphic designer by profession, her design artwork doing some jobs for a fashion school was so unique that the school's founder encouraged her to study fashion. She started off studying garments and later decided to focus on creating leather bags when she saw a gap in the market for high quality locally produced leather products, specifically bags as they could reach a wider demographic and general target audience.

Merón initially started her store with individual bags and slowly grew to designing collections. All her production is done in house from locally sourced leather, which comes with its fair share of challenges, such as inconsistency in the types and quality of leather produced. She used to develop the bag prototypes herself and then hand finished samples over to the production team, but her production team have become well versed in her design and style and are now able to translate her designs from a few sketches.





MERON  
BY LANTIERE LONDON







Meron is keen to empower her employees to raise their own quality of production as individual producers of leather goods. She has also observed that it is easier to mold interns or graduates who have limited market experience and thus fewer questionable habits gleaned from other spaces, therefore being more amenable to being taught her unique way of doing things. Interns work for Meron for approximately a year, after which a number of them stay on as full time employees. Women make up the majority of her production team, and she hopes to employ more, specifically single mothers, having seen the struggle they in particular go through to find work.

Meron has one store in Addis and is also stocking internationally in the Netherlands, Italy, Japan and Finland, and is currently in negotiations with a Swedish stockist. She is also in talks with a Kenyan brand with regard to a possible collaboration.

Meron has been quoted as saying, “It is difficult to design when your mind is not free”. She, like many other designers, is managing all aspects of the business. As her business grows she is finding it increasingly challenging to manage all aspects of the business by herself, and hopes to get a business manager, preferring to focus on developing new collections and products.

Besides her focus on increasing the visibility and quality assurance of the wider Made in Ethiopia brand, Meron also plans to create a shoe line that caters for the African market.











# LALI

Lali is a fashion house set up in 2013 by Lemlem Teklehaimanot. She designs majority of the fabrics used in her collections, with the raw materials for the fabrics all being locally sourced. Their pieces, available for men, women and children, are made from environmentally friendly organic cotton. This is a key selling point, especially with international buyers.

The export market is the main focus for this brand, with their pieces currently being sold in Spain at an African concept store. They have found this focus more profitable as their brand creates more casual wear/street wear which is preferred abroad, as opposed to Ethiopia where many prefer to wear more traditional garments.

Lali is mostly sustained by Zenar, a second company they set up to primarily produce uniforms using locally sourced fabrics and accessories. Zenar is also looking to go into pajamas, and create a line of basics that aims to compete with the growing market for China-made clothes. Both Lali and Zenar are based in the industrial park, which has given them access to a lot of well trained workers. They currently have Bangladeshi and Pakistani production managers, who help with quality control and sample making. Lali has one store, located next to their production space, which is ideal due to the high foot traffic and consistent electrical supply.





Access to finance is one of the main challenges Lemlem faces, especially with Zenar. They have had to turn away very big orders because they do not have the capital to take the order. Additionally, due to lack of significant collateral, the amount of finance they can access from banks is limited. The other major challenge she faces is having an in-house marketer and sales person to focus on building the brand and getting more orders. She also thinks there is need for more digital and social media marketing strategists in the country, in general.

Lemlem hopes to open up another office and store in the city centre, because as much as her current location is ideal for production and sales for certain products, it is very far from other key services and possible new markets.



# Paradise FASHION



Paradise Fashion was founded by Genet Kebede and been in operation for the last 25 years. Genet was the second contemporary fashion designer in Ethiopia to set up in the local market after graduating from a fashion school in Buenos Aires, Argentina. She was inspired by the great reception of her final year showcase that featured Ethiopian textiles and motifs.

Paradise Fashion currently has beachwear, a home décor line and ready to wear clothing. They also designed and produced cabin crew uniforms for the Ethiopian Airlines first class section. Four of their products are stocked in the Ethiopian Airlines in-flight duty free store, marking the first time a locally made product has ever been sold there.

Genet controls a major part of her production process. Paradise Fashion have women spinners that create the yarn they uses, and their collections also feature a lot of hand stitching and weaving. They have 20 full time employees and up to 60 weavers working on their production depending on the season. This may go beyond 100 weavers due to their online store that will be launching soon.











Paradise Fashion products have been sold in London, Paris, Norway and the United States, the latter being the main base for the online store, where they work with a third party company to handle logistics. In Ethiopia, they recently opened a store at Radisson Blu that is doing very well—a recent hotel pop-up made three months worth of sales in two days. There are also working with a marketing agency to increase awareness of their product and brand.

Over the next two years, they will be building their own production space aiming to reduce their highest cost, which is rent. They are also working to expand the product selection of their online store, planning to launch a scarf line to expand their kaftan, beachwear and home decor offering.










# YEFIKIR



The label was founded in 2009 by Fikirte Addis, who is also its head designer. She produces her own traditional woven material which is tailored into contemporary pieces to tell stories about their culture. She has shown and done popups at Africa Fashion Week in New York, and has also featured in Lagos and South Africa.

Yefikir likes long, flowing and easy to wear pieces. Her latest collection, which debuted at the Hub of Africa fashion show, was called the “Lioness” collection, was dedicated to her mother, and was to express the strength, innocence and beauty of women.

Yefikir make mostly custom made garments, and is moving into making a larger ready to wear offering. She has a team of 3 fashion designers and 2 garment producers. Yefikir enjoys working with traditional textiles and embroidery, with men weaving and women doing the embroidery as generally happens culturally. She’s currently doing some research into organic dyes, extracting them from plants and flowers, and hopes to incorporate these into her garments going forward. She has also been working with Ethiopia’s biggest silk manufacturer.

Yefikir have recently moved solidly into e-commerce via Instagram, Facebook, e-mail and Viber, in both Ethiopia and internationally, and are also excited about selling at more concept stores. However, the state restrictions around financial transactions (not being able to bank externally for instance) have made this difficult.

Fikirte would like to strengthen the brands presence in East Africa, hoping to have a stronger retail presence in the region and to incorporate more regional influences into her work.













# Production:

## TEXTILES & TECHNIQUES

Ethiopia produces leather and cotton in large quantities. This has helped a number of designers access affordable raw materials. Currently, the total area on which cotton is being cultivated has reached 42,000 hectares<sup>2</sup>. With regards to leather, the country possesses one of the world's largest livestock populations (57,829,953 cattle), putting the country first in Africa and sixth in the world, and making Ethiopia a key suppliers of hides and raw materials of the growing of leather and leather product industry. There are 32 tanneries nationwide converting hides and skin to different types of finished leather. The hides and skin supplied to the tanneries have reached 1.4 million cow hides, 6.7 million goat skins and 13.2 million sheep skins<sup>3</sup>. Sheep and goat skin represent the bulk of Ethiopian leather production. The country is known internationally for its superior quality of sheep skin, widely acknowledged as being the best in the world.

2 Ethiopian Textile, Garment Exports Earns USD 31.2 mn Over Last 3 months (2017, December, 12). Retrieved from [http://www.yarnsandfibers.com/news/textile-news/ethiopian-textile-garment-exports-earns-usd-312-mn-over-last-3-months#.WnwVcYVDv\\_4](http://www.yarnsandfibers.com/news/textile-news/ethiopian-textile-garment-exports-earns-usd-312-mn-over-last-3-months#.WnwVcYVDv_4)

3 Mulisa, H. (2017, July, 13). Ethiopia: Promising Exports in Leather Industry. Retrieved from <http://allafrica.com/stories/201707140459.html>





There are however still challenges in accessing certain types of leather, with the tanneries constantly changing the type and textures of leather they produce without warning. There have also been instances when the government suddenly closed the tanneries for 14 working days for unexplained reasons, causing a significant lag in production. Overall the advantages outweigh the issues, with a number of designers having built good working relationships with the tanneries. This allows them to place custom orders, select the colours they want, etc.

Silk is also produced in Ethiopia, but not enough to meet local demand and thus some designers have to import their supply, alongside that of cashmere and linen. Access to high quality accessories is also very limited, most designer import these from China. This process can take a while, especially if they want to benefit from the tax deductions one receives as an export company.

Traditional cloth in Ethiopia is woven on hand looms. Hand weaving is an age-old traditional practice that has traditionally passed down from father to son, similar to embroidery which has mainly been passed on from mother to daughter. The techniques have not changed much for centuries but the patterns, colors and designs have become increasingly sophisticated. Additionally, the skills themselves have also began to be passed out outside family and gender lines.

In Addis, most of the weavers are based at Shiromeda, which is a good example of a production cluster that developed organically, from weavers alone to incorporating spinners, tailors and embroiderers on separate floors of neighbouring buildings. On the main street are rows of small retail stores selling everything from scarves to traditional wedding dresses, similar to the areas which mostly sell leather or silver goods.



As the export market increases the number of foreign companies, Ethiopia has seen a rise in the number of skilled production workers. There are also a lot of skilled workers from Bangladesh and Pakistan working in quality control, sample making and pattern drafting, and overall raising production quality standards.

Over Sept – Nov 2017 period, Ethiopia has earned USD 31.2 million from textile and garment export<sup>4</sup>. The value of exports and the Ethiopian textile and garments industry has increased rapidly from USD 10 million to 120 million during the past ten years, and the Ethiopian government aims to boost exports even further. Agro-processing, especially textile production has been identified by the government as one of the strategic investment sectors which can reap massive forex rewards.

<sup>4</sup> Ethiopian Textile, Garment Exports Earns USD 31.2 mn Over Last 3 months. (2017, December 12). Retrieved from [http://www.yarnsandfibers.com/news/textile-news/ethiopian-textile-garment-exports-earns-usd-312-mn-over-last-3-months#.WnwVcYVDv\\_4](http://www.yarnsandfibers.com/news/textile-news/ethiopian-textile-garment-exports-earns-usd-312-mn-over-last-3-months#.WnwVcYVDv_4)



# GOVERNMENT & **Tax**

The government is currently offering massive strategic incentives to organisations that are exporting half their products or services, or supplying three quarters of their products or services as production or services input to an exporter. These are exempted from income tax for the first five years after they set up. Comparatively, those exporting less than 50% of their products or services, and those supplying only to the domestic market are exempted from income tax for just two years. There is also a 100% custom duty exemption on import of all granted capital goods, such as machinery equipment and manufacturing plant construction materials. Spare parts worth up to 15% of the total value of imported investment capital goods are also exempted from customs duty<sup>5</sup>.

For those situated in the manufacturing park zones, there is consistent and affordable electricity. There is also access to low land rates, which significantly lowers costs for those who want to set up factories in the area. However, this comes with some conditions, such as strategic partnerships with government-recommended organisations. Designers also benefit from the AGOA trade agreement when exporting to the US, and get zero rated import tax. Working with AGOA also helps with gaining credibility with the government. The European Union also offers zero rated tax upon fulfilling certain criteria.

<sup>5</sup> (2018). Manufacturing The Incentives. Retrieved from <http://www.investinethiopia.net/index.php/investment-opportunity-ethiopia/manucaturing-in-ethiopia?showall=&start=2>





# Access TO FINANCE

Some designers have been able to access loans from banks at interest rates of about 17%<sup>6</sup> — but these, however, require collateral. Some designer therefore use their deposits for big orders as collateral, or have to use larger securities such as their private properties.

Microfinancing is also available to some designers, but this comes with limitations as regards the size of the eligible organisation. Additionally, the amount of funding offered is rarely enough to cater for the bulk order it is needed for. Other institutions that offer financing include the Women Development Bank, and the Women Entrepreneurship Development Project (WEDP), which in particular has offered up to USD 25,000 to one of the designers we spoke to. This was made possible because the designer had a large order, making it evident that they would be able to repay the loan. The Women Entrepreneurship Development Project (WEDP) is an International Development Association lending operation which has been in operation since 2013 in Ethiopia, and was designed to address the key constraints for growth-oriented women entrepreneurs in Ethiopia. The WEDP line of credit disburses approximately USD 2 million in loans to women entrepreneurs every month<sup>7</sup>.

6 Yewondwossen, M. (2017, October 16) NBE applies new policies following the 15 % birr devaluation. Retrieved from <http://capitalethiopia.com/2017/10/16/nbe-applies-new-policies-following-15-birr-devaluation/>

7 Financing Women Entrepreneurs in Ethiopia: The Women Entrepreneurship Development Project (WEDP). (2016, July 21). Retrieved from <http://www.worldbank.org/en/results/2016/07/21/financing-women-entrepreneurs-in-ethiopia-the-women-entrepreneurship-development-project-wedp>

The Commercial Bank of Ethiopia<sup>8</sup> also offers financing to those in the manufacturing and textile industry. However, it is focused on promoting those in export business. They currently have two main facilities. The first of these is the “Pre-shipment Export Credit Facility”, a short term loan that can be used to finance raw material purchase, processing, warehousing, packing and transporting finished goods to shipment. For this facility they require either collateral or receipts of export proceeds of a minimum of USD 300,000, or proof of engagement in viable business of at least for two years. The second is the ‘Revolving Export Credit Facility’ that aims to ease the working capital difficulties exporters face with monies being tied up in goods that are in transit. One must submit export documents verifying that that the goods are in transit to a port, and CBE can then offer up to 80% of the value declared to the entrepreneur. Both of these facilities are availed for a maximum term of one year, and the lending interest rate is 7.5%.

8 Domestic Banking. (2018, June 25). Retrieved from <http://www.combanketh.et/DomesticBanking/CreditFacilities.aspx>





# HIGHLIGHT:

## **Ethiopia's Leather Sector Policy Environment**

In order to encourage foreign direct investment, the Ethiopian government offers a variety of services and incentives to foreign investors to support the easy installation of the industry, which also result in the creation of competitiveness (factory price) of the leather products. These services include:

- Modern industrial park infrastructure, lowest electricity costs in the world (according to Ethiopian officials), negligible cost of land leases (1 Birr per acre) available for export oriented firms;
- One-stop business registration and support institution offering - research, testing, skills development and regulation. This is the Leather Industry Development Institute;
- A raft of tax incentives including exemptions on input importation, corporate tax holidays of up to 8 years, P.A.Y.E. holiday for 2 years for foreign firms;
- Market development facilities including a V.A.T. holiday on marketing of leather products, pre-shipment loans at 85% of purchase order;



- A ban on exportation of raw leather to encourage finishing, and a 150% importation tax on leather importation, creating a local demand for leather products;

- Abundance of cheap labor, with a minimum wage sustained at about Birr 1400 monthly (KES 4,000) and a high demographic dividend, with 70% of the population being below 27 years of age.

## **Growth Opportunities for Ethiopia's Leather Sector;**

Resource maximization should be at the centers of Ethiopia's growth strategy. At the stock levels of 25 million heads of cattle and 40 million sheep and goats, Ethiopia has one of the largest leather resources in Africa. With 28 tanneries (15 of which are export oriented) and an installed capacity to process 40 million skins and 3 million hides a year, Ethiopia earned about USD 150 million in 2016 from less than 50% of the optimum production potential. With more efficient collection and preservation processes, there will be increased earnings by reducing the lost hides, and increasing the output from tanneries.







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