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PRESENT AND FUTURE ROLE OF AFRICA IN THE WORLD LEATHER AND DERIVED PRODUCTS INDUSTRY AND TRADE

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*This document has been prepared without formal editing. The views presented are not necessary shared by UNIDO.

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LIST OF SYMBOLS AND ABBREVIATIONS

ACP	African, Caribbean and Pacific Group of States
AGOA	African Growth and Opportunity Act
B2B	business to business
China	People's Republic of China
CFC	Common Fund for Commodities
COMESA	Common Market for Eastern and Southern Africa
EAC	Eastern African Community
ECOWAS	Economic Community Of West African States
ESALIA	Eastern and Southern Africa Leather Industry Association
EU	European Union
FAO	Food and Agricultural Organization of United Nations
FOB	free of board (trade/price parity)
FTA	Free Trade Area
HQ	headquarters
ICT	information and communication technology
ITC	International Trade Centre
kg	kilogram
Ksh	Kenyan Shilling (US$ 1.00 ≈ 67.17 Ksh on 11 May 2007))
LDC	least developed country
N/A	not available
OECD	Organization for Economic Co-operation and Development
pc	piece
SADC	Southern African Development Community
SME	small and medium enterprises
sq.ft	square foot (1 sq.ft = 0.0929 m^2)
UN	United Nations [Organization]
UNIDO	United Nations Industrial Development Organizations
USA	United States of America
US$	United States dollar
WTO	World Trade Organization

Mention of the names of firms and commercial products does not imply endorsement by UNIDO.

SUMMARY

This paper analyzes the prevailing situation of the African leather and leather products sector in the context of the global leather-based industry. It attempts to identify and highlight all the features regarding raw material/hides and skins production, quality as well as trade. Important aspects of processing of hides and skins to semi-processed and finished leathers including marketing are considered.

Due to the diversity in level of development of the leather sector in various countries and regions of the World and the existing differences in the scale and form of trading activities the paper presents an African outlook within the global context. There is an on going evolution of the hides, skins and leather sector in many African countries. Initiatives supported by international agencies have played a positive role in this evolution that is largely determined by trends in supply and demand for raw materials and leather products. African countries have been exposed to "competitive pressures" experienced in the sector `attributed to growth; cheap labor; productivity; external trade and prices. As a result the sector unfortunately has remained a complimentary sector to those in China, India etc. rather than a competing sector.

Availability of hides and skins as a renewable resource in Africa has not guaranteed competitive access of manufactured leather products into the global market. The strength of the sector attributed largely to cheap labour and availability of raw hides and skins is outweighed by the weaknesses in poor technology; lack of capital and lack of requisite information. Therefore the sector is unable to exploit existing opportunities in external as well as intra-regional trade. It is also to a large extent unable to withstand competition from imports saturating domestic markets.

Is Africa ready to overcome factors hindering contribution of the leather sector to economic development in many African countries such as, *low productivity and low value-addition?*

The future role of the African leather industry will be determined by the African enterprises ability to make efficient use of "production factors" in their favor to improve performance and image at the market place. In this regard, they must in the future acquire characteristics, which will enable them to respond to customer needs rapidly and diversify products. There is growing interest especially from Europeans in producing leather products in Africa and this is coupled with a new trend of Asian importers especially Chinese importing semi-processed materials rather than raw hides and skins.

Africa in the future mostly through strategic alliances with leather and leather products industry European, Chinese, Brazilian and other developed industries appear poised to create the necessary backward and forward linkages required to shift substantial production to African countries. The trends in the leather industry that are product, technology and market related show that markets are progressively served by multinational companies who capitalize on new opportunities. The products norms and standards are being harmonized and therefore there is opportunity for African enterprises to participate in market communities such as the European Union (EU), the North American Free Trade Agreement (NAFTA) and others in the future.

INTRODUCTION

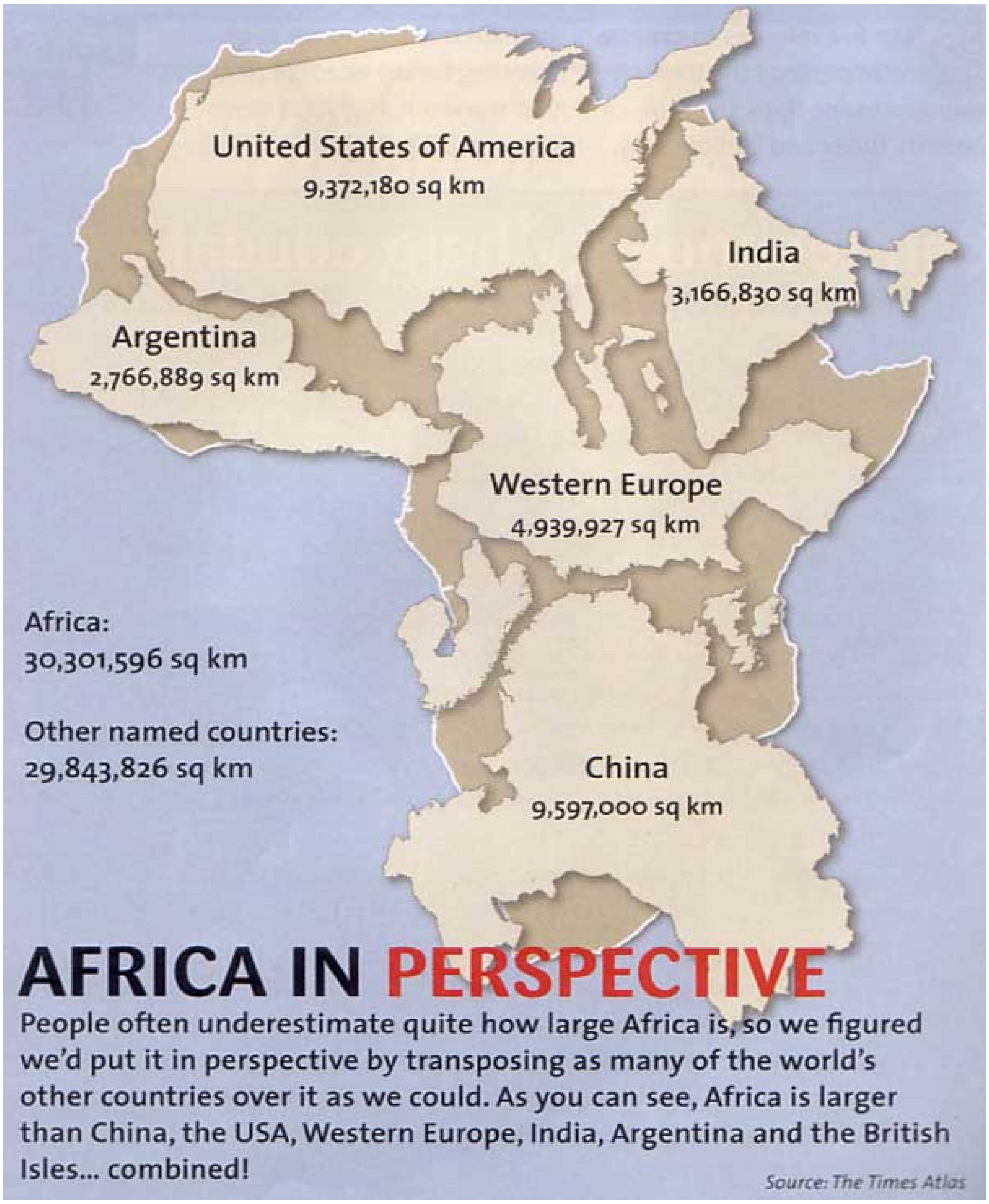
Organizations such as UNIDO and sister agencies, the FOOD AND AGRICULTURAL ORGANIZATION OF UNITED NATIONS (FAO), COMMON FUND FOR COMMODITIES (CFC) and the INTERNATIONAL TRADE CENTRE (ITC) have been involved in running programmes for several years in Africa aimed at upgrading the quality of hides and skins, processing and manufacturing of leather products as well as their marketing. The structural character of the sector and the magnitude of the problems facing it as appears in this paper indicates that there is still a long way to go before all the constraints are removed.

Going back into Africa's history one sees the important role livestock, and livestock products played in the everyday life of the people. Indeed most cultural activities such as marriages rotated around the unique relationship between man and his livestock. Livestock rearing is still an important occupation for pastoralists all over the continent mainly providing milk and meat for the people's dietary needs. Hides and skins, which in the past used to be crudely processed with oil tannage or tanned in pits using vegetable tannins are still tanned along major rivers such as the Nile and Niger and are used for making simple sandals and other leather articles.

The major changes which have taken place in Africa during this century in all aspects of life and economic development have revolutionalized the status of livestock and livestock by-products such as hides and skins. The commodity has assumed major economic importance for many countries as a readily available renewable resource with the potential of generating foreign exchange earnings and creating employment opportunities. Considering the large livestock population in Africa and the low position the leather sector occupies in terms of the global trade, it is important to position the continent's projected future role in global leather industry. This however should take into account that a lot is required to be done in order to improve the sector's performance.

The performance of this sector is dependant on several factors and parameters which determine success. Therefore this paper considers the industrial development as core and it also looks at backward and forward linkages which are essential in ensuring the future of the leather industry in Africa. This is probably the most opportune time to reflect on the future of the leather industry considering major efforts which have been put in overcoming constraints which faced the sector, recent investor interest in Africa and the current reversal of past decline of manufacturing capacity.

Africa in Perspective



Africa is a continent comprised of 53 countries and represents the largest of the three great southward projections from the main mass of Earth's surface.

EVOLUTION OF THE LEATHER INDUSTRY IN AFRICA

Livestock distribution and availability of raw materials on a geo-political basis led to a regional evolution of an African leather industry. Three countries have been used as case studies, Egypt, Ethiopia and South Africa.

The leather industry in North Africa has a longer history compared to other regions in sub Sahara Africa. Egypt in particular has a long tradition in leather tanning with virtually all raw hides and skins being tanned by mid 1980s. This is in sharp contrast to other countries in Africa which are either exporting raw materials or are processing leather up to wet-blue stage. Other North African countries like Morocco and Tunisia have enjoyed close ties with European leather industry especially with the developed industry of Italy. As a result these countries have moved substantial production further downstream to production of finished leather products, mostly footwear.

The industry in Eastern and Southern Africa region was originally driven by the availability of raw hides and skins and this is still largely true up to now due to the inability of the industry to have other competitive factors. The livestock population in this African region account for approximately 60% of all livestock in Africa with two countries Ethiopia and Sudan with large livestock resources accounting for large proportion of the resource. Ethiopia, which had early contact with Italians, has a more developed leather and leather products industry compared to the rest of the countries in the region.

It is therefore apparent that the African leather industry development can be considered to be at three levels:

a) developed – Egypt, Morocco, Tunisia and South Africa;
b) fairly developed – Eastern & Southern Africa countries including Ethiopia and Zimbabwe;
c) relatively under-developed – most of West Africa countries.

Livestock Resources and Hides and Skins Production

According to FAO statistics[1] about 12% of the World, 15% of developing countries cattle population is in the African continent. 12 top hide producers have 78% of all the African cattle livestock (*Fig. 1*).

[1]*Source:* FAOSTAT | © FAO Statistics Division 2007 (2005 data)

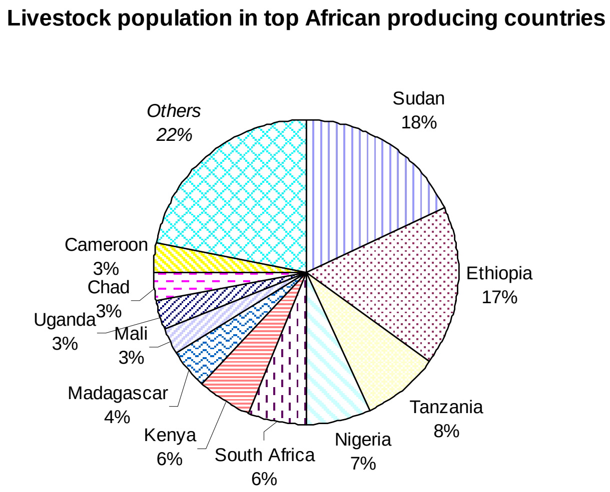


Fig. 1

Regarding raw hides production (in wet/salted weight) Africa provides only 4.5% of the World total and 3.4% of all developing countries production (*Fig. 2*).

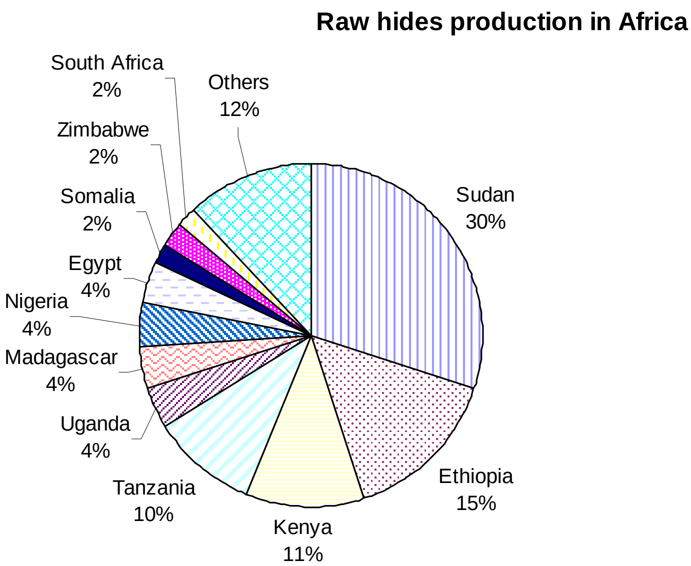


Fig. 2

Some of the challenges facing Eastern Africa are more or less the same as those experienced in Western Africa especially regarding the quality of raw materials. Recently in Ethiopia the industry has been going through some dynamic changes with the tanning sector being modernized and several new shoe factories being built. The penetration of footwear products from Ethiopia to EU market during the past two years is a major milestone in the development of the African leather industry.

The growth of the industry in Southern Africa region has been led by a vibrant industry and has been fuelled by the country's large market for footwear and leather products. The large automotive industry consumes most of the hides from the region. On the other hand the low per capita consumption of leather products in other African countries due mostly to low incomes and the challenges of poor quality raw materials have affected the domestic growth of the sector.

Liberalization of trade in most of the African countries in early and mid-1990s had a profound impact on the increase of export of raw materials mostly to Asia. Data collected in selected countries of the EASTERN AND SOUTHERN AFRICA LEATHER INDUSTRY ASSOCIATION (ESALIA) show a surge in exports of raw materials between 1999 and 2001. This export surge resulted in closure of many tanneries and this was compounded by importation of second hand shoes reducing the demand for locally finished leathers. The near collapse of the industry in those countries without raw materials export restrictions triggered a protectionism reaction through macro-economic policies in 2002. The situation is that there are fewer exports of raw materials in many countries and increased tanning mostly up to wet-blue stage.

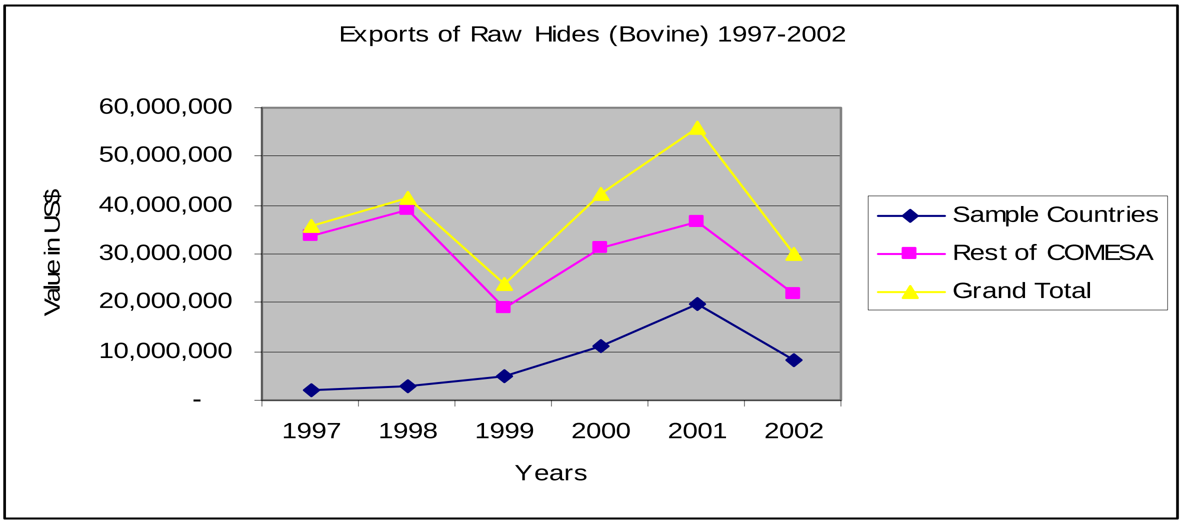


Fig. 3

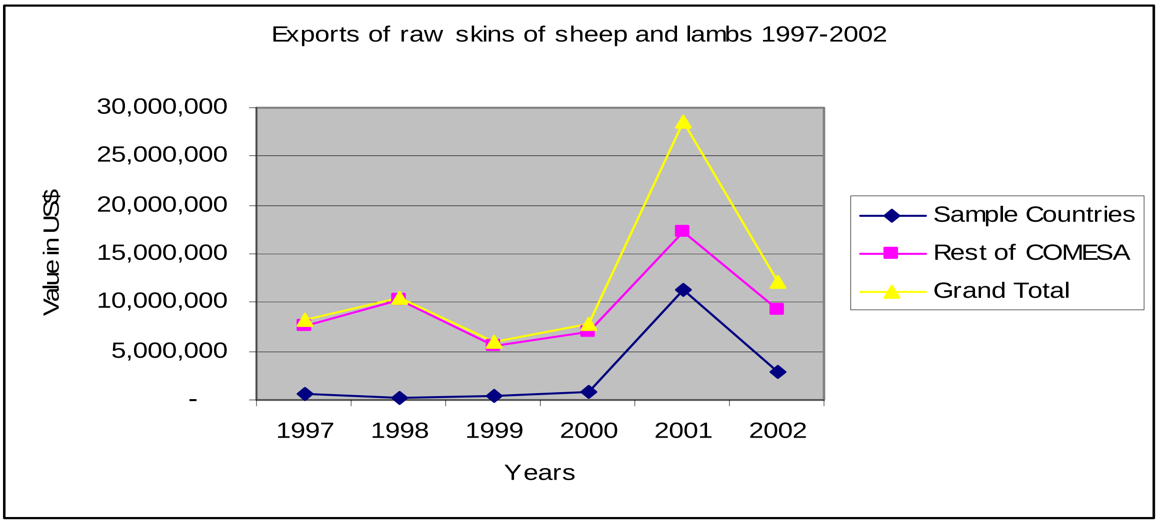


Fig. 4

BACKWARD AND FORWARD LINKAGES

Backward Linkages

The African leather industry generally lacks strong backward linkages partly due to absence of organized marketing systems for livestock and livestock products. In addition lack of centralized slaughter facilities and widespread home slaughter which yield poor quality raw hides and skins do not provide sufficient incentives to the development of the industry. The trading channels for hides and skins are usually weak with several intermediaries involved before the raw materials are purchased by the tanneries. There is also the issue of damage inflicted during the handling and preservation of hides and skins from the slaughter house to the tannery lowering the quality.

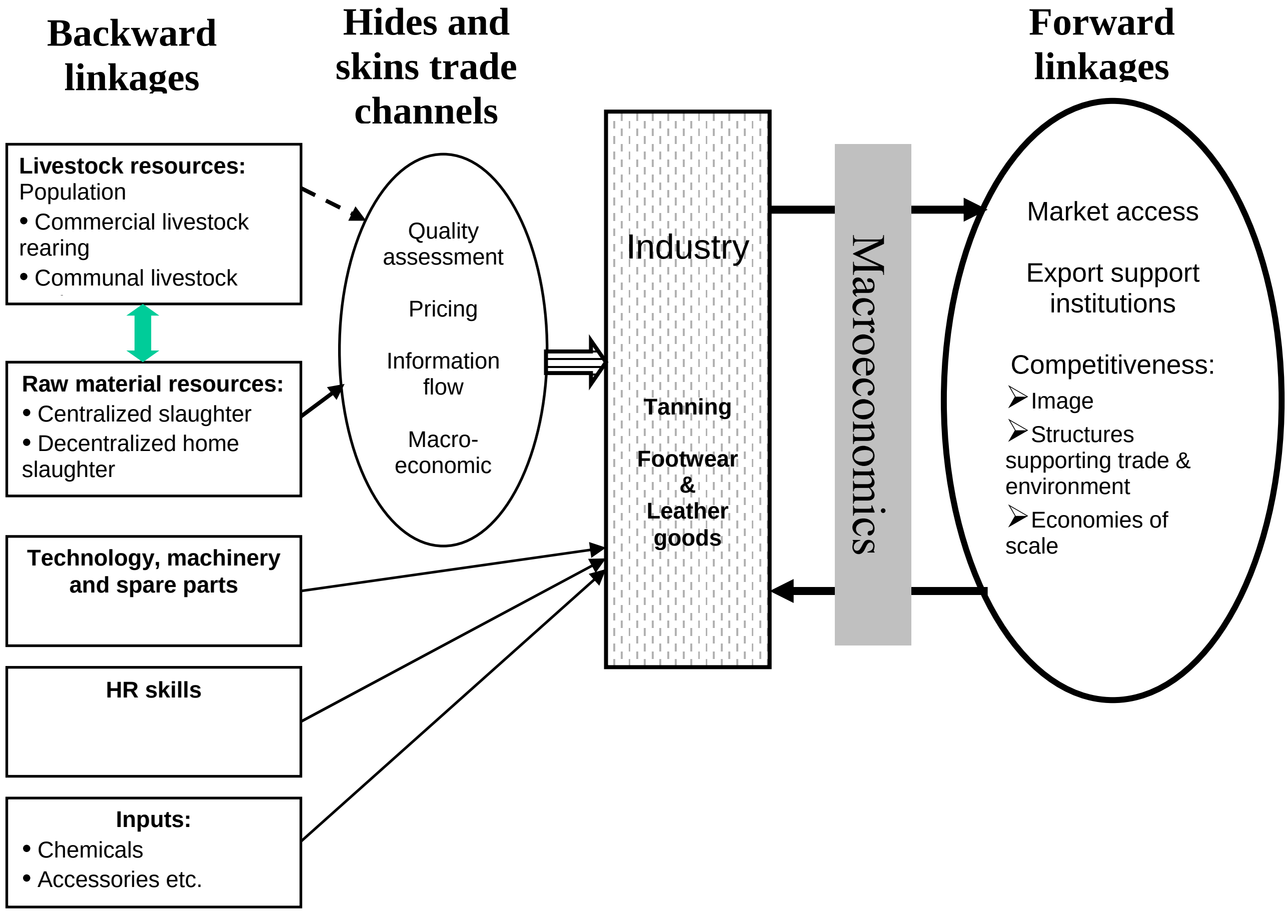


Fig. 5

Challenges facing the African leather industry are mainly due to lack of appropriate backward linkages as explained below.

Access to Raw Materials
Some African countries with insufficient raw material resources are limited to some extent by the cost of raw materials and access especially to materials originating from countries, which impose export restrictions e.g. Ethiopia.

In this era of liberalization and globalization the cost of raw materials is not always affordable for many tanneries as it is pegged first to the international markets and secondly to the existing trading conditions existing in the country. Countries with raw material will continue having a competitive edge.

Sustained Capital Investment

The leather industrial sector in Africa faces numerous technical constraints at the production level due to the state of equipment, operations or simply maintenance. In many companies the equipment installed is usually old or poorly reconditioned and has minimal lifespan. Initially this is cheap but becomes expensive with time and is reflected in the overall performance of the industry. There is therefore great need to promote re-investment in new machinery, modern technology and facilitate requisite training of human resource.

In addition amongst the factors that lead to low productivity and high manufacturing costs in the Leather sector is the poor infrastructure. At the raw material supply level, the infrastructure available is generally poor and inadequate. This is mainly due to poor transport and communication infrastructure.

Degree of Vertical Integration

Lack of vertical integration is a common feature in African industries almost in all sectors. In the leather sector this feature is quite significant in many countries due to the initial development process of industrializations in Africa. Most of the factories were either established in order to substitute imports of footwear and leather goods or in order to increase value addition to raw materials without taking into account the inter dependence of various segments of the sector starting with raw hides and skins up to the final product. Therefore there is very little integration, which is in stark contrast to the more developed leather industrial sectors which are vertically integrated through a system.

Human Resources

Lack of adequate skills has been identified as one of the major challenges facing the African leather sector in all segments of production and marketing chain. It is also an area where African enterprises should normally have a competitive edge as they enjoy lower labour costs. However, unfortunately this benefit is lost due to low productivity and in many cases poor workmanship. The success of the African leather industry is dependent on the sector's ability to utilize institutions existing capacity building institutions.

Forward Linkages

Trade Enhancement

Leather and leather products have potential for regional investment and growth within the various regional blocs such as COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA (COMESA), ECONOMIC COMMUNITY OF WEST AFRICAN STATES (ECOWAS) and SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC), both for export and for the regional market. The environment for investment can be improved and enhanced through the joint and individual actions of the bodies and the member states.

The existing leather industry is highly fragmented and decentralized through the various member states and thus fails to capture the economies of scale needed to make the leather products industry competitive internationally and regionally. Even the hides and skin export opportunities - which are the easiest to pursue – need some market integration across borders to improve earnings and capture value, but actual leather goods production will require some integration at the outset to lower costs and aggregate the skills needed to produce competitive products.

By removing constraints to processing and production, those countries and companies with comparative and competitive advantages will capture a larger share of the market for intermediate and finished goods, while others will not. Current conditions dictate that not all of the existing investments can or should be utilized. In fact, the existing investments most likely to grow at first are the companies doing cross-border business in regional skins and hides for their production and export business.

The greatest potential for immediate improvement and growth is in the export of hides and skins. Each country can improve its earnings if quality and sorting are improved. Producers, traders and exporters will all benefit from the increased trade. Second, such growth can lead to increased investments by others in the value chain in other countries.

Leather Trade Integration

Prospects for development of the regional leather sector are enshrined Treaties establishing COMESA, SADC and EASTERN AFRICAN COMMUNITY (EAC). The specific provisions of these Treaties with a bearing on the sector's development are articles to trade integration and cooperation in industrial development.

On trade integration, the three regional trading blocks have tariff reduction programs, which although all aimed at enhancing regional market accessibility for regionally produced goods are not in harmony to each other. They all are however at formative stages, characterized by implementation of the preferential tariff and negotiations for the customs union.

In the case of COMESA, a Free Trade Area (FTA) was launched in 2000, where nine countries, signed up for the FTA. The other countries included Djibouti, Egypt, Madagascar, Malawi, Mauritius and Zambia. By acceding to the FTA these countries eliminated their tariffs on COMESA originating products, in accordance with the tariff reduction schedule which was adopted in 1992 for the gradual removal of tariffs to intra-COMESA trade.

The FTA has not only gotten rid of customs tariffs but has also involved the relaxation and eventual elimination of quantitative restrictions and other non-tariff barriers.

Import Duties on Hides and Skins, Leather, Leather Goods and Footwear

Import duty structure in the selected four countries is summarized in *Table 1* (see next page). The duty varies across the countries and is not anywhere near harmonization. The duty structure reflects the protectionist attitude and an effort to promote national leather sector value chain.

Table 1

Import Duty on hides and skins, leather, leather goods

Unit: *%*

Commodity	Ethiopia		Kenya			Sudan		Zimbabwe		
	Duty on imports from all countries	Duty on imports from COMESA	Duty on imports from all countries	Duty on imports from COMESA	Duty on imports from EAC	Duty on imports from all countries	Duty on imports from COMESA	Duty on imports from all countries	Duty on imports from COMESA	Duty on imports from SADC
Raw hides and skins	10	9	5-15	0	0-1.5	45	0-15	5-15	0-13.5	0-5
Tanned or crust hides and skins	30	27	15	0-13.5	1.5	45	0-15	15	0-13.5	10
Leather	20-30	18-27	15	0-13.5	1.5	45	0-15	15	0-13.5	10
Leather goods	35	31.5	25	0-22.5	3	60	0-45	60	0-54	50
Leather footwear	3%	31.5	35	0-31.5	4	60	0-45	60	0-54	50

Export trade regulations on hides, skins and wet-blue leather (*Table 2*) are mainly in two major categories:

(i) export taxes, duties and surcharges;
(ii) export bans.

Table 2

Export regulations

	Export ban	Export tax	Export/import permit	Sanitary certificate
Ethiopia	On raw hides/skins	–	For semi processed leather	For raw hides and wet blue
Kenya	–	10 Ksh/kg or 15% of value, whichever is higher	For semi processed leather	For raw hides and wet blue
Sudan	On raw hides/skins	15%	For semi processed leather	For raw hides and wet blue
Zimbabwe	On raw hides	–	For semi processed leather	For raw hides and wet blue
Uganda		20%	For semi processed leather	For raw hides and wet blue
Tanzania		20% based on FOB value	For semi processed leather	For raw hides and wet blue
Eritrea	On raw hides/skins		For semi processed leather	For raw hides and wet blue
Zambia	On raw hides		For semi processed leather	For raw hides and wet blue
Egypt	On raw hides		For semi processed leather	For raw hides and wet blue
South Africa	On raw hides			

Source: ESALIA Study on Harmonization of Tariffs – March 2004

Many African countries are LDCs and have preferential access into the EU (EU-ACP[2] trade agreements) and United States of American (AGOA[3]) markets. However there are factors limiting the countries from getting value from these trade preferential programmes due to

- Trade policies
  - Accession to the WORLD TRADE ORGANIZATION (WTO);
- Lack of competitiveness
  - Trade facilitation due to trade logistics and cost of transport,
  - Quality and standards of products,
  - Availability of services and inputs.

[2]African, Caribbean and Pacific Group of States.
[3]African Growth and Opportunity Act.

LEATHER-BASED INDUSTRY DEVELOPMENT

Dynamic's in Africa's leather-based industrial development are visible in Ethiopia, where the recent structural shift from production of low value products of semi processed hides and skins to high value product of finished leather and leather products is part of the country's development strategy. Most leather industry companies in the country are already entered into global market with finished leather and leather products. The export level in leather and leather products is positively growing. From the following chart (*Fig. 5*) level of export in value added products is at an increasing rate.

Fig. 5

The footwear industry in Ethiopia is producing and exporting shoes to the developed countries as well as taking back the domestic market from Chinese shoes, while growing vigorously. These developments are good news to those who are interested in poverty reduction in Sub- Saharan Africa because Ethiopia is one of the poorest countries and the footwear industry is one of the labour intensive industries providing ample employment opportunities.

Tanning sub-sector

The processing of raw hides and skins to either semi-finished or finished leather is determined by several factors including the ability of the tanneries to convert raw materials to good quality leather acceptable to the available market.

Tanning industries' success in countries where there are thriving leather products industries suggests that the back bone of leather processing in the world so far, is not so much the source of raw hides and skins but the strength of finished products industry. For instance African countries with a lot of raw materials have mostly a weak tanning sub-sector processing mainly wet-blue leather in most cases.

Established tanneries in Africa range in size from artisanal, small- to medium-scale, and in some cases large highly mechanized tanneries. Irrespective of the size of the tannery, the factories face similar problems with the larger tanneries experiencing bigger problems. Most of these large tanneries were established initially as parastatal organizations without establishing their economic viability and in some cases purely for political reasons.

Often plants were started with wrong plant design, over capacities created and most with and over establishment of personnel. These plants also lacked properly trained manpower.

As would be expected in such situations these tanneries have experienced severe operational problems attributes to poor management, financial constraints, breakdown of machinery and lack of spare parts. The result has been low capacity utilization in some cases as low as 8% capacity utilization. However, in the countries where tanneries are in private hands, they are usually more successful although faced with some of these constraints.

Recently there have been major efforts by national governments to privatize parastatal and/or Governmental owned tanneries as has happened in Tanzania and Sudan. With economic liberalization taking place throughout the African continent it is expected more tanneries will be offered for sale to the private sector by governments.

At the global level there are common constraints facing the tanning sub-sector:

Trade Protectionism and Government Policies

Performance of the tanning industry is affected to varying degrees by government policies such as trade barriers on imports and exports, which interfere on the volume and direction of trade flow. Sometimes as is happening in some African countries government policy encourages exports of raw hides and skins at the expense of the tanning sub-sector, which finds itself without raw material for processing. On the other hand some governments offer liberal incentives to the processing industry as follows:

- Ban on the export of raw hides and skins,
- Ban on wet-blue leather exports of selected products or levy on such exports,
- Facility for custom duty draw back on duty exemption on imported inputs,
- Export refinance schemes and concessionary loans for export oriented processing industries.

The consequence of the two scenarios is easy to predict. The country whose Government is interested in short term benefits of quick foreign exchange earnings drives its processing industry out of business and does not benefit form the value-added benefits and increased employment opportunities for it's people accruing from a healthy and competitive tanning sector.

Environmental Factors

Pollution control requirements have increasingly become quite stringent throughout the world. African countries have established national environmental management agencies to offset stringent requirements as regards environmental degradation.

The African tanneries are facing challenges in addressing the environmental issues due to the following; poor housekeeping practices, lack of well defined process control measures e.g. pH measurements, temperature control, excessive water usage and lack of water conservation measures, excessive chemical usage quantity wise and in percentage offers, low quality material inputs – mostly chemicals and lack of measures to ascertain their quality, poor factory layouts leading to congestion and hindering production flow, lack of preventive maintenance schedules for equipment, high volumes of solid waste generation and lack of waste management programs and measures, low attention to occupational health and safety issues, high energy usage and lack of energy conservation measures/programs and low level of awareness on pollution prevention measures more so the cleaner production concepts.

Over capacity in Processing Plants

The tanning sub-sector is faced by a situation where there is generally bigger capacity for hides and skins processing than the supply. Utilization of existing industry has also dropped in those countries with high labour costs and this is particularly so in countries like Italy which had stable utilization over many years and where level of utilization is reported to have dropped by between 7-10% compared to the 1980s.

Market Trends and Currency Fluctuations

The competitive nature of the tanning industry and the low margins which tanners must accommodate means that they have to follow strictly the volatile market trends of raw materials, semi-processed leather and finished leather as well as the currency fluctuations.

Sellers of raw hides and skins are required to offer for sale materials according to an agreed selection and grading while at the same time specifying delivery time. A lot of suppliers in Africa find it difficult to adhere to these basic market requirements sometimes for reasons completely out of their control like the poor transport infrastructure. Lack of standard grading systems for hides and skins, easily understood by buyers is also a hindrance to marketing activities. This situation is further complicated not only by regular currency devaluations in some of the developing countries but also the hides and skins price fluctuations without the information on market being readily available.

The importance of grading and selection for marketing purposes extends to market requirements for semi-processed and finished leathers. The tanners leave no room for poor selection and grading and insist on having uniform materials so that they can supply finished leather products manufacturers with uniform leather of the specified grade, finish, color and thickness.

The strength of world economy and related factors tend to influence leather and leather products markets. Whenever there is increased consumer confidence in ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD) countries the market of leather and leather products tends to firm. Events connected to the breakdown of the former Eastern block amongst other factors have affected negatively the economies of Western European countries and this has had a marked influence on the leather market.

Leather Footwear and other Leather products

At a first glance, a consumer of Leather footwear may not see the connection of raw hides and skins with the leather product. This is in itself a reflection of the amount of effort in terms of technology, workmanship and other inputs put in transforming the raw materials to an attractive finished leather product. However, irrespective of whatever amount of effort is put, the quality and specific physical properties of the raw hides and skins determine the end product to be made.

The current international distribution of leather products manufacturing/processing as discussed elsewhere in this paper does not determine proximity or volume of raw material supplies. However, the trade pattern of hides and skins, semi-finished and finished leather is determined by this distribution. Currently there are indicators some Asian countries previously not known as big consumers and importers of raw materials like China have increased their importation as well as processing capacities.

Footwear being the most important leather end product, the success of its manufacture is therefore the best indicator of level of available technology, design capability and labour cost in any particular country.

African countries have been particularly weak in the area of footwear and leather products manufacture[4] (*Fig. 6*). This can be attributed to several factors such as:

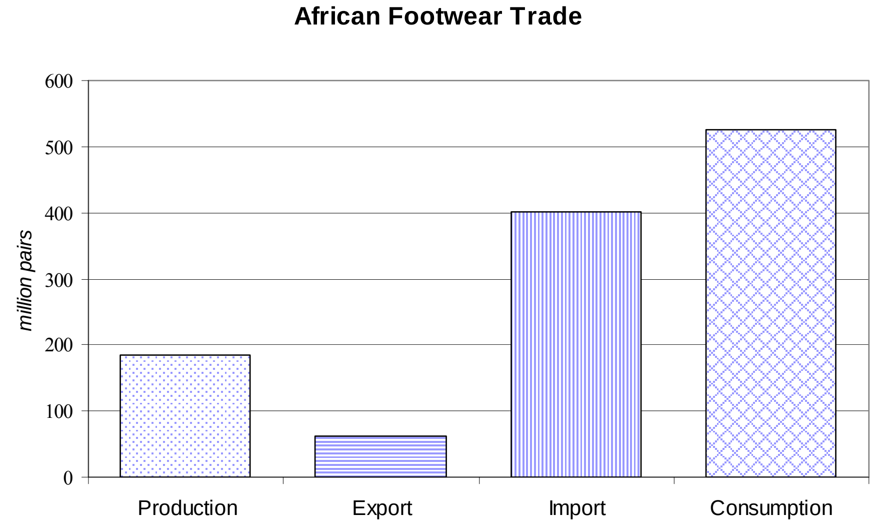


Fig. 6

1. The short history of footwear consumption in the warm tropical countries of Africa means that footwear demand is moderate although gradually increasing.
2. Changes in fashion trends are not frequent and therefore per-capita footwear consumption remains low. Footwear factories in Africa usually do not follow fashion changes and are mostly not aware of fashion trends.

[4]*Source:* World Footwear Markets 2006. SATRA TECHNOLOGY CENTRE, Kettering, 2006.

3. The per-capita income of African countries in low and footwear rates low on the list of priorities for most individuals (*Fig. 7*). Demand for footwear as is well known is a function of income and this is therefore reflected in the low footwear consumption especially of footwear made out of leather.

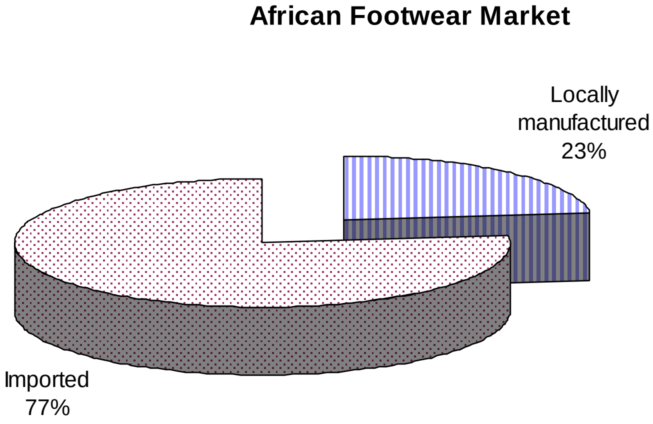


Fig. 7

4. Low productivity and poor workmanship contributes to the weakness of footwear industries.

Another factor peripheral to the foregoing but probably even more important is the Government policies which sometimes discourage local production of footwear by allowing dumping of imported cheap footwear at extremely low prices mainly originating from South-East Asian countries. In a number of African countries this has led to closure of local footwear factories.

Demand for leather products other than footwear in African countries is rather low. There are few leather goods manufacturers and their products tend to be specialized. This specialization extends from manufacture of special tourist items usually with hand painted designs, traditional baskets made out of sisal with leather components, key rings, leather bags and purses.

The leather products manufactured are mostly hand crafted especially those made out of vegetable tanned leather and therefore are low technology items. In the absence of mechanized production of these articles and where technical staff is trained on the job aspects of quality are not fully addressed and this leads to poor workmanship. Other drawbacks include lack of uniformity of the articles manufactured and low production efficiency. Although these countries have low wages it becomes difficult for overseas markets to accept low quality products, which they produce.

Other factors which hinder development of leather goods include lack of fittings and accessories which are mostly imported, irregular supply of good quality leather from local tanneries and government policies which impose high taxation on leather goods allowing cheaper imports to dominate domestic markets and stifling growth of the local leather goods industry.

Artisanal Leather and Leather Products Industry

There is an urgent need to increase the competitiveness of the leather and leather products sub sector in Africa in order to accelerate economic development and contribute towards poverty eradication. The economies of these countries are characterized by either very small private businesses ("one man shows") or few large corporations, SMEs development has been hampered by various challenges and they can broadly be described as the "missing middle" in the industrialization effort.

The leather sector development in Africa is based on the abundant availability of raw hides and skins which are a renewable resource, constituting the main raw materials for the leather industry. Full exploitation of these resources has not been realized because the main activity within the sector value-chain is currently dominated by exports of raw materials partly due to the weak position of the manufacturing sector which produce higher value added products. In particular, despite this great potential the sector is characterized by dominance of weak and in many cases underdeveloped footwear and leather products SMEs which experience several constraints inhibiting their development. Most of these enterprises are severely disadvantaged by the following:

- lack of entrepreneurship skills;
- low level technology leading to poor quality products;
- their ownership structure;
- market niche and target group for their products;
- lack of access to formal financing sources.

Most hit by this declining performance of the industry are the SMEs. This sector generally includes both the small scale and micro enterprises employing up to about 10 people. In practice the employment level is on average less than two persons per enterprise but with considerable scope and flexibility to easily expand their operations.

The informal (artisanal footwear and leather goods) sector prior to economic liberalization in most Africa countries was very significant in its contribution to the manufacture of leather products especially footwear. Indeed it is estimated that the sector was responsible for producing up to 60% of the footwear and leather goods in Kenya by the mid eighties. This situation has changed negatively over time due to a number of factors, most significant of which is the competition from imported second hand shoes and cheap leather substitutes from China and other countries. This has resulted in a shift of the enterprises away from manufacturing towards retail business of the same products.

Potential for the Artisanal Leather and Leather Goods Manufacturers

The potential for the footwear and leather goods sub-sectors in terms of employment creation is high, considering the low capital outlay, basic training and inexpensive tools required for those intending to set up new start-ups and those who want to improve their skills either in product design or marketing to enhance their competitiveness. The potential of this sub-sector can be exploited through

(i) ***Creation of viable clusters***

This should be made up of geographically concentrated and sectorally specialized small enterprises promises to provide growth paths for SMEs that go well beyond the simple survival and employment generation strategies associated with the informal sector. The clusters will be horizontally integrated and in this case will share a common market for the end products, use common technology or labor force skills. Further, the foreseen cooperation within the clusters will share information, resources, knowledge and technical expertise and other forms of joint action which will reduce transaction costs and further enhance competitiveness as well as accelerate learning and technical innovation.

(ii) ***Sub-contracting***

Helps large firms avoid investments risks by making use of the investments already existing among the small scale businesses and from a national perspective therefore facilitates higher utilization of existing production capacities in the country. Furthermore, given the problems involved in managing increasingly militant labour force, large enterprises are able to have better control over the labour processes. They are also able to take advantage of the relatively cheaper labour costs enjoyed by the small scale enterprises and have more flexibility in responding to market and technological changes. Through the subcontracting arrangement transfer of technology from large multinational corporations to small and medium enterprises is facilitated and productivity promoted in the process.

To achieve the intended objectives for the artisanal manufacturers and maximize on their strengths, the following inputs will be required:

a) sensitization and awareness creation;
b) facilitation of cluster formation-cluster leadership, visioning etc.;
c) capacity building to cluster members;
d) facilitation of subcontracting between firms;
e) entrepreneurship development.

Lessons Learnt

Hides and Skins, Leather and Leather Products Sector

The interventions directed to hides and skins improvement in Africa have largely been on a pilot basis targeting selected countries or regions during a projects life. The results obtained do not reflect a continent wide situation and therefore a more comprehensive strategy in hides and skins improvement for Africa should be formulated taking Africa's geographical diversity.

Considering that the level of the leather industry in Africa is at three levels, different interventions should be targeted at the different regions based on the level of development.

Value-Chain Approach

Interventions in the leather sector in the past did not take into account globalization and the current world order. It is imperative that future interventions focusing on the development of this sector be based on a value chain approach to get a better understanding of the value divers within the supply chain.

Project-Ownership

Donor dependence by recipients is a big challenge in donor funded projects where the two mutually reinforcing key ingredients to successful development assistance i.e. "sustainability and ownership" are missing. Key to sustainability is the degree of commitment and ownership of program activities. While individuals within a community may have actively participated in discourse about what to do and how to do it, there must be more to this process than simple discourse. First, for participation to be fully meaningful it should be based on knowledge and commitment by the recipients.

Market Driven Intervention

The formulation of appropriate strategic options for future development of the leather sector should be intended to link production (including hides and skins improvement) to the market. This is in view of the fact that for a more profitable leather sector, market considerations should constitute the entry point of all activities (both at raw material improvement and value addition levels).

Need for Capacity Building

Industries within the sector should be empowered through requisite training in footwear and leather goods in order to upgrade quality production and technical skills in order to improve their position in the global industry through increased competitiveness. This will improve the performance of the African leather industry by laying emphasis on capacity for growth in terms of human resources and, technical skills.

Mechanization

The African leather industry rarely plan for re-investment and is slow in adopting modern technology which can lead to improved competitiveness. Unfortunately most leather processing industries in Africa were started with old and sometimes poorly re-conditioned machinery. They therefore experience long "down time" due to frequent breakdown and lack of spare parts. There is need to address this problem by instilling technical skills and trying to get maximum benefit from modern technology. At the artisanal level, semi-mechanization should be introduced in order to improve productivity and production of standardized articles.

Linkage to Capital

Partnership for resource mobilization is critical for achieving development results – much more so because UNIDO has limited core development assistance resources. Forging partnership requires a coordinated effort between Headquarters (HQs), the field office and the partner Government. Proposed interventions should be marketed systematically at the field level and to donors HQs. Pledging meetings with representative of donors in the field need to be centrally prepared and followed-up. Program planning needs to be flexible and allow for optional implementation paths under different resource level scenarios. Donor interests in some instances distort the implementation programmes and a way should be found to compliment each others interest.

Recommendations and Proposed Way Forward for Africa

Table 2

Factors	Problems	Proposed Activities	Outputs
Raw materials related	1. Low quality raw materials due to the high rate of defects on hides and skins and poor preservation techniques.	➢ Quality improvement of raw hides and skins which is their primary raw material by rewarding producers of good quality with better prices. ➢ Awareness campaign and training of butchers, flayers, traders as well as hides and skins extension workers on flaying and preservation techniques. ➢ Introduction of better handling and preservation techniques through training. ➢ Initiation of programmes promoting purchase of hides and skins according to quality.	• Improved quality of raw materials.
	2. Lack of backward and forward linkages in the African leather sector.	➢ Ensure quality improvement of raw hides and skins by rewarding producers of good quality with better prices. ➢ Create and promote efficient livestock and livestock products trading channels. ➢ Introduce common grading standards such as the CFC/ESALIA standard for raw hides and skins.	• Strengthened supply chain, established strategic alliances with suppliers of raw hides and skins.

Factors	Problems	Proposed Activities	Outputs
Processing/Manufacturing related	3. Lack of access to appropriate modern technology 4. Ineffective and inefficient manufacturing processes.	➢ Proactively seek joint ventures, strategic alliances and other long term commercial North-South agreements ➢ Adopt new technologies to make leather manufacturing processes more efficient and effective. This will especially boost productivity and improve the quality of African leather products. ➢ Promote and facilitate technological research, and innovation of leather processes and products. ➢ Facilitate forums that will promote trade opportunities, increase information, technology and experience exchanges between the developed countries and less developed countries. ➢ Promote and initiate projects that will lead to technology capacity enhancement in African countries in the leather sector. ➢ Using their global reach and contacts, donor agencies should strengthen linkages amongst industry (globally) and existing technology support institutions. ➢ Put policies in place to encourage foreign direct investments to enable foreign investors enter into joint ventures and other long term strategic alliances with the African companies.	• Improved competitiveness to take advantage of trade opportunities. • Marco economic policies in place which provide a conducive environment for foreign direct investment.

Factors	Problems	Proposed Activities	Outputs
Environment related	5. Environment degradation.	➢ Asses and identify the detrimental environmental impact of tanning activities on the environment with the aim of introducing cleaner production technologies. ➢ Formulate and implement appropriate environmental policies and laws to compliment the donor organizations' environmental programmes and projects ➢ Continue with environmental mitigation projects such as those being undertaken by UNIDO and also assess the feasibility of reuse of waste products from hides and skins industry.	• Increased utilization of cleaner production technologies in the industry. • Increased compliance with environmental legislation.
Information related	6. Lack of effective market information systems.	➢ Encourage use of information and communication technology (ICT) to harness and disseminate accurate market information. ➢ Improve the communication infrastructure to be able to effectively and efficiently facilitate the adaptation to upcoming technologies. ➢ Initiate projects that will lead to information technology enhancement in the African leather sector.	• Increased business to business (B2B) trade.
Market Related	7. Ineffective market penetration strategies.	➢ Define effective market penetration and expansion measures, moving away from traditional ways of doing business. ➢ Seek appropriate regional treaties and trade agreements to enhance market entry by African companies in other regions. ➢ Organize programmes to equip management of African companies with appropriate marketing skills.	• Increased volume of trade resulting from enhanced capacity utilization.

Factors	Problems	Proposed Activities	Outputs
	8. Poor product image.	➢ Improve quality of products and effectively promote them preferably utilizing ICTs. ➢ Enhance the activities of the exports promotion centres to empower them to be able to effectively promote the African products in foreign markets. ➢ Initiate projects that will improve product development, marketing and quality improvement capacity for African companies.	• Enhanced product development and e-marketing. • Enhanced EPCs capabilities to effectively lobby. • Developed capacity in product development and marketing.
Human resource	9. Few training institutions for the Leather sector. 10. Poorly equipped and outdated technology in the existing training institutions.	➢ Assess the national training needs and manpower development in the hides and skins sub sector. ➢ Based on assessment upgrade/rehabilitate existing training institutions. ➢ Initiate projects to assist in creation of more leather training and development centres.	• Improved capacity of training institutions to meet sector requirements.
	11. Lack of employees' skills upgrading and poor compensation for high skills by companies.	➢ Engage in regular management skills, technical expertise, and other staff skills upgrading exercises. ➢ Initiate relevant capacity building in technical skills in hides and skins as well as leather technology.	• Improved human resource capacity.
Investment and financial related	12. Low investment in research and Development by companies.	➢ Allocate resources to leather sector research and development programmes.	• Improved research and development.
	13. High cost of capital 14. Unavailability of credit. 15. High requirements by lending institutions.	➢ Identify alternative sources of capital finance. ➢ Put effective internal financial structures in place that will improve their credibility with the financial institutions. ➢ Initiate revolving fund schemes and provide adequate management and monitoring for them until they are self sustaining.	• Policies in place that gear towards improving the line of credit for industrial development.

Factors	Problems	Proposed Activities	Outputs
Macro economic policy environment	16. Lack of Government interventions in terms of fiscal policy related incentives.	➢ Facilitate greater private sector participation in policy formulation by involving the stakeholders during the planning and formulation of industrial development strategies and policies. ➢ Donor agencies like UNIDO should provide assistance to Governments and the private sector to formulate suitable Policy framework for leather industrial development.	• Strengthened capacity to lobby for policy formulation by working closely with the governments.
	17. High costs of operations due to non conducive trade environment. E.g. unfair competition from cheap Asian imports.	➢ Innovatively and creatively model products to reflect the market needs. ➢ Practice niche marketing. ➢ Measures should be introduced to create a level playing field in leather trade. ➢ Carry out studies to assess the impact of trade liberalization.	• Improved response to market demand. • Greater understanding of trade liberalization issues.
	18. Exports of raw hides and skins leading to lack of raw materials for the local tanneries and leather companies.	➢ Promote higher utilization of existing tanning capacities by discouraging exports of raw materials through enactment of tariff barriers.	• Increased revenue for governments.
	19. Low value addition due to high costs of processing.	➢ Seek modern technologies to lower their costs of production and also improve the quality of the goods they produce. ➢ Promote the existing infrastructure for forward linkage leading to value addition and manufacture as well as exports of finished products. ➢ Initiate projects that will go towards promoting value addition in African leather companies.	• Improved competitiveness to take advantage trade opportunities.

Annex

Tanning, Footwear and Leather Goods Industries in Selected African Countries[5]

Eastern African Region

Leather processing (tanning)

	Kenya	Uganda	Tanzania	Rwanda	Ethiopia
Number of tanneries	18	4 – bovine, goat and sheep 1 – fish skins	6	1	21
Installed tanning capacity					
Hides	3,300,000	368,000	39,160,000 sq.ft	64,000	1,400,000
Skins	6,300,000	1,664,000		1,280,000	32,000,000
Tanneries in operation	9	3 (hides/skins) + 1 (fish skins)	2	1	21
Utilized capacity					
Hides	1,300,000	69,920	3,446,080	64,000	40%
Skins	1,675,000	316,160		1,280,000	60%
Industry output					
Wet-blue – hides	1,076,400 pc	143,000 pc	1,958,000 pc		
Wet-blue – skins	6,246,000 pc	150,000 pc			6,000,000 pc
Crust – hides	246,000 pc				10,000,000 sq ft
Crust. – skins	432,000 pc				4,00,000 sq ft sheep 1,500,000 sq ft goat
Finished – hides	450,000 pc	3,000 pc		179,200	10,000,000 sq ft
Finished – skins	240,000 pc	30,000 (fish)		358,400	4,000,000 sq ft Sheep 1,500,000 sq ft Goat
Number of employees	1,700	88	60	75	5,000
Markets	*Major Markets:* Pakistan, China	Italy , Pakistan, India		China Mainland, Hong Kong, Italy	60% Europe, 30% Asia, 10% USA and Africa
International	90%			99%	
Local	10%			1%	
Annual Export Quantity/Value					
Wet-blue – hides	229,790	US$ 2,000,000		US$ 1,500,000	US$ 66,500,000
Wet-blue – skins	472,943				
Crust – hides					
Crust – skins	730,653				
Finished – hides	45,958				
Finished – skins	819,839				

[5]*Source:* http://www.intracen.org/Appli2/Leather/AfricanPlatform

Footwear

	Kenya	Uganda	Tanzania	Rwanda	Ethiopia
Number of factories	30	4 (20 small scale entrepreneurs)	1	Artisanal level production	15 formal, 700/100 informal
Operational	15	3	1	–	15 formal, 700/100 informal
Manufacturing capacity [pairs]	*Installed:* 662,400 *Utilized:* 264,960	*Installed:* 130,800 *Utilized:* 45,000	*Installed:* 500	–	*Installed:* 8,000,000 *Utilized:* 7,000,000
Number of employees	103	40 part time	45	–	4,000
Market	–	Rwanda, Democratic Republic Congo	Zaire, Rwanda	–	EU and Africa
International	–	99%	25%	–	1%
Local	100%	1%	75%	–	98%
Annual export value	–	–	US$ 80,000	–	

Leather goods and garment

	Kenya	Uganda	Tanzania	Rwanda	Ethiopia
Number of factories	30	–	–	Artisanal level production	15
Operational	15	–	–	–	15
Manufacturing capacity	*Installed:* 500,000 (small leather goods) *Utilized:* 300,000 (small leather goods)	–	–	–	500/day
Number of employees	76	–	–	–	200
Markets		–	–	–	Africa, EU
International	–	–	–	–	0.5%
Local	100%	–	–	–	99.5%
Annual export value	–	–	–	–	US$ 500,000

West African Region)

Leather processing (tanning)

	Burkina Faso	Cameroon	Cote d'Ivoire	Senegal	Ghana
Number of tanneries	1	3	2	2 + 10 artisans	1 large 7 small-scale
Installed tanning capacity					
Hides	5,000/day				50,000
Skins	25,000/day	800,000/year	100,000 goat/sheep	480,000	
Tanneries in operation	1	2	1	2 + 10 artisans	7 smalls-scale
Utilized capacity					
Hides	20,000				30%
Skins		380,000	80,000 goat and sheep skins	480,000	
Industry output					
Wet-blue	3,500,000	230,000	80,000 goat/sheep	4,000,000/year	22,600/year
Crust	300,000				
Finished	35,000	20,000			
Number of employees	300	93	35	400-500	164
Markets	Africa, Europe, Asia	Europe, Asia	China, India	Spain, Italy	
International	95%	90%	100%	100%	
Local	35%	10%		100% artisans	100%
Annual export value [US$]	N/A	3,812,750	1,181,818	N/A	N/A
Wet-blue	N/A	N/A	N/A	N/A	N/A
Crust	N/A	N/A	N/A	N/A	N/A
Finished	N/A	N/A	N/A	N/A	N/A

Footwear

	Burkina Faso	Cameroon	Cote d'Ivoire	Senegal	Ghana
Number of factories	N/A	11	None	1	None
Operational		11		1	
Manufacturing capacity		900,000		1,200/day	
Number of employees		400		12	
Market					
International					
Local		100%		100%	
Annual export value [US$]					

Leather goods and garment

	Burkina Faso	Cameroon	Cote d'Ivoire	Senegal	Ghana
Number of factories	Artisan industry	3	None	244 artisans	None
Operational		2		N/A	
Manufacturing capacity (yearly)	50,000–60,000				
Number of employees	100	21		630	
Market				N/A	
International					
Local	100%	100%		N/A	
Annual export value [US$]					