Africa’s leather sector transitionary Initiative from commodities to product development; Is Perception, Technology or Skills the dilemma?

By

Prof (Dr.) Mwinyikione Mwinyihija Executive Director, ALLPI

The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
Africa’s leather sector transitionary Initiative from commodities to product development; Is Perception, Technology or Skills the dilemma?

Held on 25th April and 26th April 2018 at Palais des Nations in Geneva, Switzerland

Prof (Dr.) Mwinyikione Mwinyihija PhD, DSc, FRSB, FCIWEM., HSC, CSci., CEnv., CBiol., C.WEM
Executive Director, ALLPI
P.O. Box 2358 Code 1110
Tel: +251-11-4390928
E-mail: executive.director@allpi.int
Hides, Skins & Leather in the Global Economy

- Leather and Leather products are among the most widely traded agro-based commodities in the world.
- The global estimated trade value of the sector is over US$ 130 billion a year and continues to grow.
- World livestock population estimated at 3.5 billion.
- Africa’s represents 26.32% of World livestock Population
- World hides and skins production estimated at 1.3b pcs
- Africa’s share is estimated at 14% of world production
- Total world production of leather is estimated at 23 billion Sq.ft with 65% geared towards footwear production (i.e 14.9 billion Sqft.)
Demand Side Potential

- COMESA has a footwear market size estimated at 365 million pairs per annum; Potential employment creation of 365,000 direct jobs for footwear SME’s (at 3 to 5 pairs/day/person) & several thousands in indirect employment (3/4 persons per per SME).
- With an output estimated at 85 million pairs, there is a shortfall of 280 million pairs;
- The shortfall in production has pushed up imports from the rest of the world as shown in the next slides.
- Africa - At shoe per capita consumption of 0.85 per annum the footwear demand stands at 800 million per annum.
Africa’s shoe production (Mn pairs) related to expect potential demand (1950 – 2030).

Source: Mwinyihija, 2013
Continental footwear production

**Totaling 12.03** (Billion pairs – leather & Leather blended)

<table>
<thead>
<tr>
<th>Continent</th>
<th>No of Pairs (Bn) 2013</th>
<th>% 2013</th>
<th>No of Pairs (Bn) 2016</th>
<th>% 2016</th>
<th>Trends % (±)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>9.98</td>
<td>82.8</td>
<td>10.47</td>
<td>87</td>
<td>+4.2</td>
</tr>
<tr>
<td>South America</td>
<td>0.83</td>
<td>6.9</td>
<td>0.60</td>
<td>5</td>
<td>-1.9</td>
</tr>
<tr>
<td>Europe</td>
<td>0.63</td>
<td>5.3</td>
<td>0.48</td>
<td>4</td>
<td>-1.3</td>
</tr>
<tr>
<td>North America</td>
<td>0.30</td>
<td>2.5</td>
<td>0.24</td>
<td>2</td>
<td>-0.5</td>
</tr>
<tr>
<td>Africa</td>
<td>0.15</td>
<td>1.3</td>
<td>0.24</td>
<td>2</td>
<td>+0.7</td>
</tr>
<tr>
<td>Oceania</td>
<td>0.14</td>
<td>1.2</td>
<td>0</td>
<td>0</td>
<td>-1.2</td>
</tr>
</tbody>
</table>

In 2016 Global production all shoe types (including synthetics, Leather and Blended) = 23billion pairs

Ref: Updated from Mwinyihija (2014)
Triple Helix as an Approach to Regional Leather Development

The structure provides stability, shape and consistency towards sustained Growth.
Core Leather value chain players/strata

- Producers
- Slaughterhouse owners/Butchers
- Traders
- Tanners
- Leathergoods
- Footwear

Analysis of the strata = n=244 (response rate 87%)

**NB:** When looking at the leather cluster core, peripheral and extra-peripheral are considered
a.) Gender balance

- **Male** – 86.6%
- **Females** – 13.4%

Sector is male dominated.

- Highest female engagement so far is in leather-goods (33.3%).

**Highlights:** Imbalance of gender is based on Cultural inclination, awareness and occupational gender bias.
b.) Age group

- Producers
- Slaughterhouse Owners
- Traders

Average age 49 – 59 Years

- Tanners
- Footwear
- Leathergoods

Average age 30 – 49 Years

- The youth age in the higher tiers of the chain provided explorable opportunity for Enhanced value addition.
- Extremities of 70 years was mostly observed at Producer level – not surprising !!!
Employment and Enterprise Ownership

a.) Ownership

- Producers (81.7%) – Individual, Ltd Co (e.g. Ranches), Family setup.
- Traders (96.2%) – Individual and Family Owned.
- Tanners (57.1%) – Family owned.
- Butchers/Slaughterhouses (72.5%)
- Leather goods (72.2%) –
- Footwear (78.6%) –

a.) Employment

- Producers (59.1%) –
- S/house owners (67%) – 5 – 9 employees on average
- Traders (94.4%) –
- Leather goods (72.2%) –< 5 employees on average
- Footwear (92.2%) – 10 – 50 employees on average
- Tanners (42.9%) –
SME shoe productivity ;-)  

3 – 5 pairs/day/per person

Regional break even point is estimated at 12 – 15 pairs/day/person

Operationalization above break-even point assures of sustained profitability, Business resilience, increased employment by 30-40% And potential to recapitalization

How to Attain Break even And optimization

Through Clustering which results in reduced inputs, operational and recapitalization costs.
Educational levels of the strata

- Producers (79.6%)
- S/house owners (75.6%)
- Traders (80.3%)
- Footwear (85.7%)
- L/goods (83.3%)
- Tanners (100%)

**NB:** - Tanners had the highest qualification at graduate levels and most strata reported to have had basic business skills.

**Importance!**

Good literacy levels – creates a ready platform for specialized capacity building, technology transfer and potential to innovation.
Experience

- Producers (80%)
- S/house owners (85.4%)
- Traders (93.9%)
- Footwear (88.9%)
- L/goods (31%)
- Tanners (100%)

**NB:** Acquired experience and knowledgeability is key to an effective and resourceful value chain players if facilitated and incentivized.

Span of 5 – 30yrs.
Range of Annual Turnover of Strata (US $) 2010 - 2013

- Producers (80%) - 1,250 - 187,375
- S/house owners (80%) - 1,250 - 4,988
- Traders (80%) - 1,250 - 62,375
- Footwear (80%) - 1,250 - 4,988
- L/goods (80%) - 1,250 – 4,988
- Tanners (80%) - > 187,500

NB:
- Annual Turnover Means acquired from recent studies done in Kenya’s SME’s using pareto analysis.
- Peruse the annual turnover of high tier strataums with Traders and Producer explains lost unexplored and or unpursued opportunities.
Trade

• In country’s with imposition of export tax results to about 90% of traders rendered docile on exports.
• Tanners are the most active exporters but at most unfortunately wetblue (semi-processes leather) form the bulk of exports.
• Conspicuously Leather goods and Footwear not associated with exports neither meet demand of domestic trade.

Dilemma:

➢ Taxation on exports of raw material without incentives to develop the various strata of the value chain yields very low benefit on overall.
- In the absence illegal trade flourishes in such a scenario.
➢ Mostly with exports of wet-blue innovation is at its lowest as the approach is routine with little space add more value.
➢ Higher strataums of leather goods/footwear lack opportunity to optimize
Productivity

• The SME’s depicted positive trends in Employment along the value chain from 2004/05 at 12.29% to about 21.29% in 2012/13.
  – Production on overall showed an increase of between 1–25%.
  – Wages and salary share was depicted at 11–25%.
  – Fuel and energy was predominantly indicated at 1–10%.
  – Taxation stood at 1–10%.

Dilemma:

➢ All factors remaining constant with such a scenario is the value chain sustainable OR we require interventionist strategies to revamp the sector!

➢ We need to explore for efficiencies and effectiveness on production, and quickly benchmark
Competitiveness

- Higher strata Leathergoods and Footwear experience increasing cost of competitiveness.
  For example responses from the value chain strata indicate;
  - i.) Value chain price competitiveness - 1 – 10%.
  - ii.) 71.62% deemed infrastructure unsatisfactory.
  - iii.) 55.04% illustrated that Government Interface with the leather strata was poor.
  - iv.) That corruptive practices still a concern mostly indicating lack of transparency being imminent.

Dilemma:
- With increases in the mentioned vices inherent cost of production impacts on SME’s competitiveness.
Technology and Research

- The overall response (51.7%) of the leather strata indicate a low usage (0-5%) of modern technology in their operations.
- Slaughterhouse/Butchers utility of technology – 1-10%
- Traders stands at 0 – 5%
- Tanners indicated a much higher usage of technology both for financial management and processing technology - > 40%
- Important strataums such as Leather footwear and Leather goods depicted a utility range of 1 – 10% despite the accruable advantage of ICT.

Research and Development (R&D)

- Producers, Butchers and Traders – very low engagements with R&D
- Tanners were engaged on much higher levels of R&D with much to be done if finishing of leather is to be enhanced.
Processing or Product development

- Producers, butchers and traders – no innovation towards product development e.g. associated linkage with Breeding and optimal flaying techniques etc

- Tanners inclination towards innovation is hampered by the focus on wetblue production where routine recipes dominate their production with less effort to innovate like India and Turkey are undertaking.

Dilemma:

- At tanning level environmental management systems not adequately compliant.
- Cleaner technology to ensure greener production and efficacy on production still low.
- With lack of ICT driven innovativeness there are impacts on competitiveness of production of leather and leather products in the region.
The Role of SMEs and their Importance

• Studies indicate that SMEs represent more than 95% of enterprises in most developing countries

• The importance of the SME’s in the leather sector is:
  - Creating Employment,
  - SMEs involved in raw material marketing,
  - production of finished leather goods, and
  - sale of finished leather products,
  - Evolving of many off shoot enterprises for direct and indirect linked businesses
<table>
<thead>
<tr>
<th>Rec's</th>
<th>Countries (GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMESA</td>
<td>Sudan (USD 63Bn), Ethiopia (USD 51Bn) = <strong>114USDBn</strong></td>
</tr>
<tr>
<td>EAC/COMESA</td>
<td>Kenya (USD 56Bn) = <strong>USD 56Bn</strong></td>
</tr>
<tr>
<td>EAC/SADC</td>
<td>Tanzania (USD 45.6Bn) = <strong>45USDBn</strong></td>
</tr>
<tr>
<td>ECOWAS</td>
<td>Nigeria (USD 594.25 Bn) = <strong>594.25USDBn</strong></td>
</tr>
<tr>
<td>EMU</td>
<td>Algeria (USD 219.45Bn), Morocco (USD 114.7 Bn), Libya (USD 67.6Bn) = <strong>401.75USDBn</strong></td>
</tr>
<tr>
<td>EMU/COMESA</td>
<td>Egypt (USD 275.75Bn) = <strong>275.75USDBn</strong></td>
</tr>
<tr>
<td>SADC</td>
<td>South Africa (USD 341.22Bn), Angola (USD 128.78Bn) = <strong>470USDBn</strong></td>
</tr>
</tbody>
</table>
Seven Selected Milestones Attained to date

- All 10 member states of ALLPI including three non members have a strategic plan and implementation framework.
- Innovation platform through design studio approved by the council of ministers and in the process of finalization towards Centre identification.
- A participatory platform following the triple helix Approach established and functional.
- Alignment with premier institutions to facilitate with technology transfer at advanced stage.
- Leather Trade portal at regional and global level in collaboration with commonwealth secretariat recently launched.
- Institute to host the first high level leather scientific forum in Africa – Ethiopia 2021/
- Rebranded (2017) to Africa leather and leather Product Institute to pursue AUC Agenda 2063 and The continental Free Trade Agreement.
Member states

• Kenya, Ethiopia, Eritrea, Sudan, Uganda, Zambia, Zimbabwe, Ruwanda, Burundi and Malawi.

• Collaborating Non Member States
  Swaziland, Mauritius, Madagascar, DRC Congo, Tanzania and Nigeria

Partner Institutions (Skills Development & Tech transfer)
Eleven Universities in Africa, 1 in UK, Turkey, India, China
Africa
Leather and Leather Products Institute
(ALLPI)
Thank you all for listening!