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

By

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# Multi-year Expert Meeting on Commodities and Development, Tenth Session.



Leather for Health, Wealth and Luxury

## **Africa's leather sector transitional Initiative from commodities to product development; Is Perception, Technology or Skills the dilemma?**

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# 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 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 800million 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)

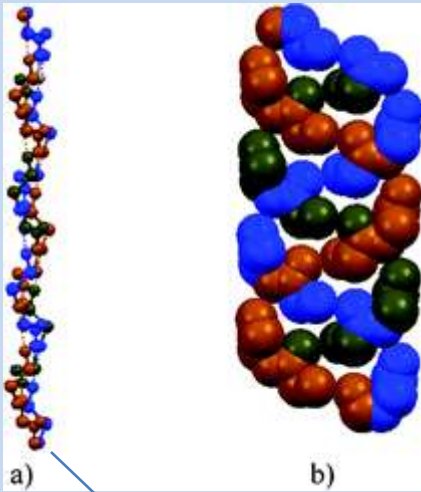
Continent	No of Pairs (Bn) 2013	% 2013	No of Pairs (Bn) 2016	% 2016	Trends % (±)
Asia	9.98	82.8	10.47	87	+4.2
South America	0.83	6.9	0.60	5	-1.9
Europe	0.63	5.3	0.48	4	-1.3
North America	0.30	2.5	0.24	2	-0.5
Africa	0.15	1.3	0.24	2	+0.7
Oceania	0.14	1.2	0	0	-1.2

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

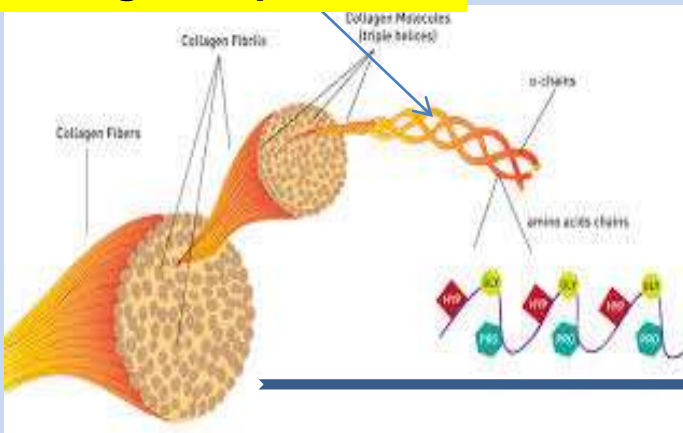
*Ref: Updated from Mwinyihija (2014)*

# Triple Helix as an Approach to Regional Leather Development

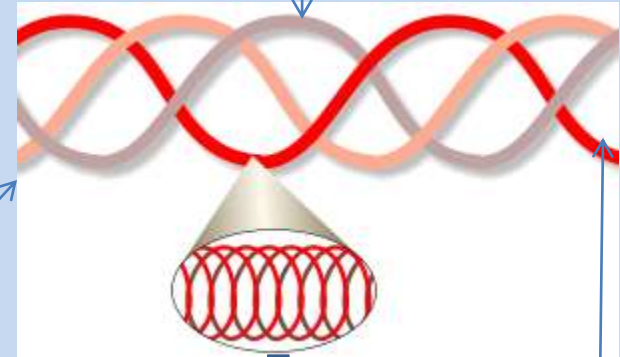
## Triple Helix Structure



## Collagen Triple Helix



Private sector



Academia

Government

SME Triple Helix Base

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-pheral are considered



# Gender and Age Group in the Leather Strata

## 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.

# Gender and Age Group in the Leather Strata

## b.) Age group

- Producers
- Slaughterhouse Owners
- Traders

**Average age 49 – 59 Years**

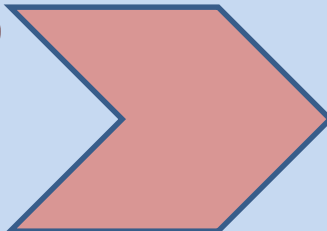
- Tanners
- Footwear
- Leathergoods

**Average age 30 – 49 Years**



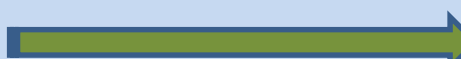
- The youth age in the higher tiers of the chain provided explorable opportunity for Enhanced value addition.
- Extremities of 70 years was mostly observed at Producer level – not surprising !!!

# Employment and Enterprise Ownership

## a.) Ownership

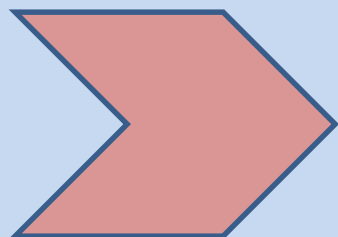
- Producers (81.7%) – **Individual, Ltd Co (e.g. Ranches), Family setup.**
  - Traders (96.2%) – **Individual and Family Owned.**
  - Tanners (57.1%) – **Family owned.**
  - Butchers/Slaughterhouses (72.5%)
  - Leather goods (72.2%) –
  - Footwear (78.6%) –
- 
- Individual Owned**

## a.) Employment

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

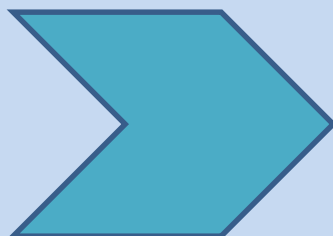
# Cont.....Employment and Enterprise Ownership

**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**

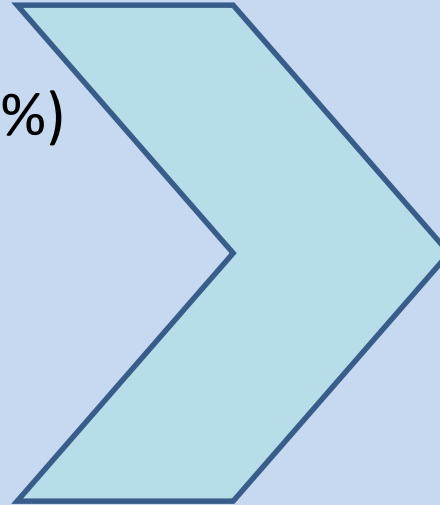
**How to Attain Break even  
And optimization**



**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%)



**Min. of High school Educ.**

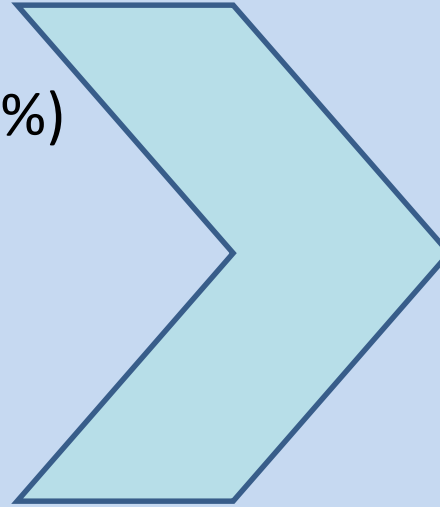
**NB:** - **Tanners** had the highest qualification at **graduate levels** and **most stratum**s reported to have had **basic business skills**.

## **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%)



**Span of 5 – 30yrs.**

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

# 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 stratum 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 with out 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 scenerio.**
- **Mostly with exports of wet-blue innovation is at its lowest as the approach is routine with little space add more value.**
- **Higher stratums 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 scenerio 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 bench mark**

# Competitiveness

- Higher stratum 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.**

# Innovation

## Technology and Research

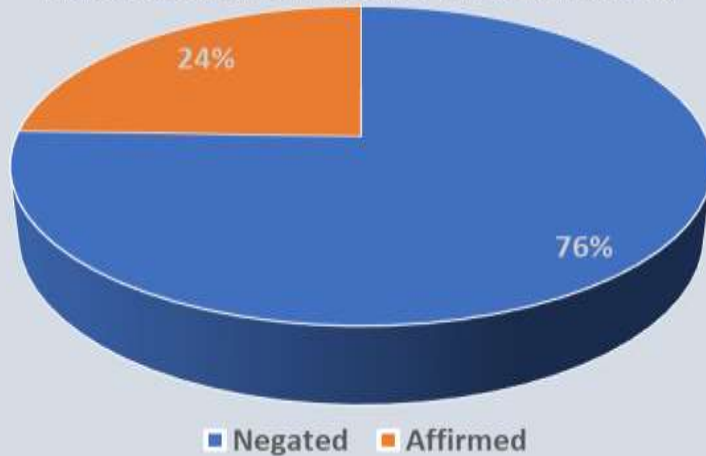
- The overall response (51.7%) of the leather strata indicate a low usage(0-5%) of modern technology in their operations.
- Slaughterhouse/Butchers utility of technology – 1-10%
- Traders stands at 0 – 5%
- Tanners indicated a much higher usage of technology both for financial management and processing technology - > 40%
- Important stratum 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)

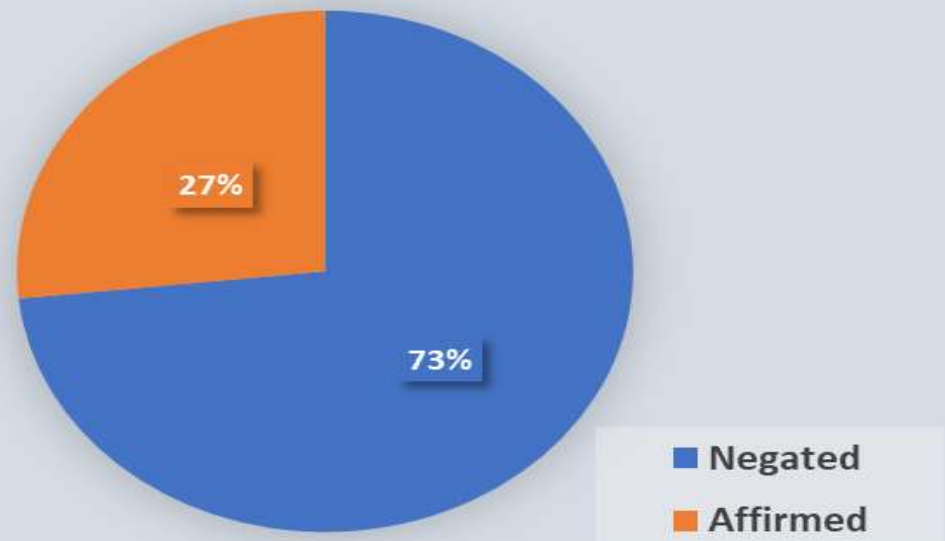
- Producers, Butchers and Traders – very low engagements with R&D
- Tanners were engaged on much higher levels of R&D with much to be done if finishing of leather is to be enhanced.

# Perception of SME's

Introduction of new method of Manufacturing



Introducing new products in the market



# Cont..... Innovation

## **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

# Africa's Top performers and Rec Affiliations (2015/16)

Rec's	Countries (GDP)
<i>COMESA</i>	Sudan (USD 63Bn), Ethiopia (USD 51Bn) = <b>114USDBn</b>
<i>EAC/COMESA</i>	Kenya (USD 56Bn) = <b>USD 56Bn</b>
<i>EAC/SADC</i>	Tanzania (USD 45.6Bn)= <b>45USDBn</b>
<i>ECOWAS</i>	Nigeria (USD 594.25 Bn)= <b>594.25USDBn</b>
<i>EMU</i>	Algeria (USD 219.45Bn) , Morocco (USD 114.7 Bn), Libya (USD 67.6Bn) = <b>401.75USDBn</b>
<i>EMU/COMESA</i>	Egypt (USD 275.75Bn)= <b>275.75USDBn</b>
<i>SADC</i>	South Africa (USD 341.22Bn), Angola (USD 128.78Bn) = <b>470USDBn</b>

# Seven Selected Milestones Attained todate

- All 10 memberstates of ALLPI including three non members have a strategic plan and implementation frame work.
- 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, Rwanda, 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!**