



REPUBLIC OF KENYA

POSITION PAPER ON

**LEATHER
AND
LEATHER PRODUCTS**

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1.0 DEVELOPMENT OF THE LEATHER INDUSTRY

1.1 INTRODUCTION

The livestock sector contributes about 10 per cent of GDP, accounts for over 30 per cent of the farm-gate value of agricultural commodities, and employs over 50 per cent of the agricultural labour force. The sub-sector is charged with the objective of ensuring self-sufficiency in livestock products and this objective has been met in most years, the exceptions being extreme drought years. The sector has also earned the country some foreign exchange through export of hides and skins dairy products, live animals and canned beef. There is considerable potential in the sub-sector in terms of increased employment and income generation if the modernization of sector is intensified through use of appropriate technological packages and improved management.

Livestock production is fully privatised and the Government's role is the provision of extension services, especially in appropriate technology and improved management. The overall livestock policy is to sustain a proper balance in investments in the sub-sector and provision of services between the public sector, the private sector and the beneficiaries. The policy strategies already put in to place include the transfer of most holding grounds to County Councils and retaining ones in order to save on costs, decontrol of meat and animal feed prices, transfer of dip management as to Community Dip Committees, the provision of livestock drugs at a cost, decontrol of milk prices and liberalization of Veterinary and Artificial Insemination (AI) Services.

Production of hides and skins, leather and leather goods and other animal by-products form an important segment of the livestock industry production and export. Every part of the country has the potential to produce hides and skins, which are replenishable local resources and form the major material of the leather industry.

From one small tannery established in the late 1940s purposely to process leather for manufacture of footwear for the British Army during the Second World War, the leather industry in Kenya has witnessed rapid growth and has at present more than 24 medium to large scale registered commercial tanneries ranging from semi-mechanised, fully mechanised to the most ultra modern.

Despite the above, the potential of the leather industry has not been fully exploited. It has the capacity for being further industrially developed into a significant, export oriented sub-sector of industry with high value addition.

The Challenges facing hide, skin, leather good and leather footwear industry in Kenya are:-

- Declining Production
- Small size of hides and skins; the size of Kenyan hide is recorded to be 20 square feet compared to USA bovine hide, which measures 40 square feet. This variation is due to poor animal husbandry.
- Defects on Hides and Skins

Before Slaughter	During Slaughter	During Preservation
Brand, Grain scratches and tears; Smallpox and streptothricosis; other defects caused by Mange, Ticks, and Lice. Cocksles and Stephanofilariasis, Reeder, pests, etc.	Bruises, Rubbed or dragged grain, Improper bleeding, pattern or irregular shape, flays cuts, gauge marks, scores, corduroy, fouling with blood, stomach content, and dung (filth stains), improper after cleaning and trimming defects, cracked grains and stretch marks, fallen hide defects, poor substance, old age defects	Putrefaction, mouldy hide and substance defects, flakiness, mottled effects, peppiness, taint, veininess, lacing, defects, folding defects, lime drying defects, smoking, slat-curing defects, salt stains, gypsum stain, heating, metallic stains, red heat, hard spots, Ground drying defects, hide separation resulting into blister, ball-drying, transport damages, re-soaking and frame drying or re-salting of poorly preserved hides and skins,

- Poor Infrastructure
- Non Recovery Rate
- Low off take rate

Apart from its high potential in employment creation, foreign exchange earnings, high value addition; and forward and backward integration, the leather industry has the potential of forming a basis for a long term sustainable manufacturing sector.

Traditionally the leather industry is highly labour intensive especially in the footwear and other leather goods manufacturing sub-sector, and utilizes to a

greater extent, women labour. In total, it is estimated that the leather industry in Kenya employs not less than 30,000 people in formal and informal sector.

2.0 STATUS OF THE SUB-SECTOR

2.1 PAST PERFORMANCE (PRE – LIBERALISATION PERIOD)

Kenya tanning sub-sector grew steadily after independence up to 1995 with new tanneries being established and some of them investing in down stream processing of finished leather. The sub-sector also supplied finished leather to a dynamic local footwear and leather goods sub-sector which was expanding.

2.2. CURRENT STATUS (POST- LIBERALISATION PERIOD)

Kenya has substantial livestock resources, 13.6 million cattle, 8.05 million goats and 5.9 million sheep and therefore Hides and Skins are an important renewable locally available resource. The leather and leather products industrial sub-sector has however experienced gradual decline in spite of its having great potential for development. There are 16 tanneries, which were established with a total capital investment of over US \$ 50.5 million (Kshs. 3.8 billion). Prior to the liberalization of the economy all these tanneries operated at an average capacity utilization of 80% and employed over 4,000 people. After liberalisation there are only 8 tanneries operational at an average capacity utilisation of 20%. The footwear and leather e.g new products sub-sector also experienced growth before liberalisation and was dominated by between 55-60% of all leather footwear made in Kenya and employing over 12,000 individuals.

Like many other African countries Kenya has been unable to fully exploit hides and skins as locally renewable resources to achieve productivity gains in the leather sector providing the much needed employment creation and foreign exchange earning. There has been a gradual decline in the performance of the sector throughout the production chain starting with raw materials, leather processing, footwear and leather products and marketing.

The present situation of the sub-sector is illustrated by the following:

- Export of processed leather has dropped from over 90% to 15% and now 85% of hides and skin are exported in raw form to countries like India and Pakistan. These countries subsidise their finished leather articles from local leather manufacturers

and are therefore in position to offer higher prices for local raw materials than their Kenyan competitors.

- Loss of 2,300 jobs in the tanning sector, 12000 jobs in the “Jua Kali” leather products sector, and 3,800 jobs in footwear factories.
- Loss of government revenue as VAT is estimated at Kshs. 1.14 billion annually based on annual net gross revenue during the pre liberalisation period.
- Low capacity utilisation.
- Gross revenue for the footwear and leather sub-sector has dropped from around Kshs. 8.3 billion to Kshs. 0.76 billion. The tanning sub sector gross revenue has dropped from Kshs. 6.5 billion to 1.6 billion.

The negative trend in the sub-sectoral development is attributed to the following major factors:

- Unfair competition from imported second hand shoes whose import duty is based on weight rather than the number of pair attracting very low duty
- Dumping of new footwear and leather goods as well as involvement of “briefcase businesses” with very low operational costs.
- Collapse of a centralized animal slaughtering enterprise, Kenya Meat Commission, leading to poor quality of hides and skins.
- High import duty on imported chemicals, machinery and their spare parts and other accessories.
- High transport costs in Kenya due to poor infrastructure and fuel costs.
- High electrical power tariffs and constant power outages.
- High costs of finance in the country
- Poor and expensive telecommunication system.
- Non-enforcement of Hides and Skin Act, Cap 359, of the law of Kenya.

The following tables show the comparative scenario between the period 1990/1995 and 1995/1999

Capacity

1990/1995	1995/1999
16 tanneries were in operation at an average of 80% capacity	8 tanneries are in operation at a capacity

Employment

1990/1995	1995/1999
The sector directly employed 4000 people	The sector employs 1700 people

Production

1990/1995	1995/1999
95% of hides and skins produce were processed for export as a value added product, either as Wet Blue, Crust or finished leather.	15% of the hides and skins produced were processed for export and the balance 85% being exported in raw.

Establishment

1990/1995	1995/1999
30 leather goods and footwear manufacturing units existed with a capacity utilisation of more than 70%.	15 leather goods and footwear manufacturing units are operational and working at an average of 30% capacity.

Bata Production

1990/1995	1995/1999
Bata produced 10,000 pairs of leather shoes per day	Bata produces less than 3,000 pairs of leather shoes per day

The above changes have resulted in: -

- Reduction of direct employment by 12000 people
- Reduction in the annual government revenue in the form of VAT from Kshs 1.35 billion (1990/1995 period) and Kshs 405 million (1995/1995 period)

Hides and Skins Production and Exported (Units tonnes)

	1990	1991	1992	1993	1994	1995	1996
Hides and skins produced	53,385	122,002	128,102	134,507	130,794	136,153	141,172
Hides and Skin Exported	1093	274	410	748	2704	2218	2301
Amount Available for domestic industry	52,292	121,728	127,692	133,759	128,090	133,935	138,871

Livestock production and estimated number of hides and skin 1990 – 97 (figures in '000 pieces)

YEAR	CATTLE	HIDES	SHEEP	SHEEP SKINS	GOATS	GOATS SKIN
1990	25,329	2077	13,370	3757	15,445	6332
1991	24,838	2037	13091	3679	15,000	6150
1992	23,952	1964	12564	3530	14,456	5927
1993	22,653	1858	11,991	3369	13,851	5679
1994	18,730	1536	9,054	2544	10,460	4289
1995	17,284	1417	8,872	2493	10,249	4202
1996	16,503	1353	8,835	2483	10,164	4167
1997			8,087	1,022	12,989	2,034

Source: Ministry of Agriculture and Rural Development, Planning Division. Welfare Monitoring Survey (II), 1994 Basic Report, pp. 175.

(a). Tanners

- During Pre-Liberalisation period Kenya sub sector grew steadily after independence up to 1995 with new tanneries being established and some investing in down stream processing of finished leather .The tanneries were supplying finished leather to a dynamic local footwear and leather goods sub-sector. In 1995 there were 16 tanneries in the country with a total investment of over US \$ 50.5 million (Ksh. 3.8 Billion) and were operating at an average capacity of 80%.

- After Liberalisation the industry is characterised by low capacity utilization estimated at below 20% on average. Demand for finished leather in the local market is low due to the decline in footwear production. At least half of the tanneries are closed.
- The number of licensed tanneries has been on the increase rising from 12 in 1990 to 16 in 1996.

Number of licensed Tanneries by status

	1990	1991	1992	1993	1994	1995	1996
Active	12	14	14	15	14	14	14
Dormant	1	1	1	1	2	2	2
Total	13	15	15	16	16	16	16

- A Very weak forward and backward linkage exist between Kenyan tanneries and livestock farmers, hides and skin trades, and manufacturers of leather goods and footwear. This is evidenced by lack of programs jointly run by these establishments with a view to alleviating some of the problems affecting the sub-sector.
- Tanneries in Kenya have mainly installed wet blue leather processing technology. Few tanneries have installed crust leather and finished stage leather technology.
- 60 % of Wet-blue leather is produced. Crust and finished leather 25%, and 15% respectively. In case of skins, 90% are processed to wet blue, 6% to crust and 3.5% to finished leather.
- Technology for processing leather to the finished stage is very expensive and thus inaccessible to most tanneries,
- The quality of Kenyan's hide and skins leather is not of high standard due to factors such as flays marks, brand marks, scratches, ticks marks, pox marks, hair slip due to poor preservation.

Tanning Capacity (Units: Pieces)

TANNERY	LOCATION	INSTALLED CAPACITY HIDES	FOR	INSTALLED SKINS	CAPA
Bulleys Tanners Ltd.	Thika	840,000		1,800,000	
Alpha-Rama	Athi River	250,000		1,000,000	
Kamiti Tanners	Kiambu	150,000		1,500,000	
Leather Ind.s of Kenya	Thika	300,000		0	
Bata Shoes Company	Limuru	200,000		10,000	
Deras Tanners	Nairobi	400,000		0	
Babar Tanners	Athi River	480,000		0	
Nakuru Tanners	Nakuru	15,000		1,200,000	
Sagana Tanners	Sagana	150,000		0	
Kitale Tanners	Kitale	60,000		0	
E.A Leather Factory		15,000		140,000	
New market Leather Factory	Nairobi	200,000		0	
Azizi Din Tannery	Nairobi	10,000		25,000	
Bawazir Tanners	Athi River	240,000		1,885,000	
TOTAL CAPACITY		3,310,000		7,560,000	

Factors contributing to the decline of the Tanning sub-sector.

- Export of rawhides and skins due to the better prices in the international market from the countries that are practicing export subsidies to their local manufacture creating an uneven playing field.
- Failure of the meat sector e.g. Kenya Meat Commission, resulted in decentralized slaughtering leading to reduction in the quality of raw hides and skin.
- Lack of adequate financial resources to re-invest in environmental control.
- Deterioration of hides and skins quality leading to poor quality finished leather.
- The production of low quality footwear and leather goods.
- No marketing drive in the export market.
- Difficulty in adopting emerging generation of process technology to lower production costs.
- Widely fluctuating hides and skins prices

- Lack of an adequate supportive government policy to reduce costs of essential imports of chemicals and equipments through measure such as exemption of import duties.
- Weak domestic market related to the opening of mitumba (second hand) footwear. Only limited volume of locally manufactured leather products is being pulled into local market,
- High local manufacturing cost;
 - Duties on:
 - Chemicals
 - Raw Materials
 - Spares and Parts
 - High costs of power
 - Frequent power outages
 - High road transport costs
 - High costs of fuel
 - Poor infrastructure
 - High interest rates

(b). Leather Goods and Footwear Manufacturers

- Before Liberalisation there were more than 25 enterprise engaged in formal footwear and leather products manufacture with a capacity utilization of more than 70%. Apart from formal sectors, there are hundreds of informal shoes manufacturing units (Jua Kali) sector responsible for manufacturing 55 – 60% scattered allover the country. The development of development of the footwear industry in Kenya was dominated by Bata Shoe Company for many years until late 1970's when other footwear manufacturing e.g. Tiger Shoes and United Footwear were set.
- After Liberalisation
 - Low capacity utilisation in factories with many closed factories and an estimated capacity utilisation of less than 30%.
 - The state of Bata Shoe Company whose leather footwear production was 10,000 pair per day has now dropped to below 3,000 pairs per day.
 - A Jua Kali sector which is virtually non existent with an estimated loss of at least 12,000 jobs.

Performance Indicators for leather goods and footwear industry

Performance of the leather goods and footwear industry has not been impressive. Although in nominal terms the sector's GDP rose by 150% between 1991 and 1995, the sector performed very badly in real terms. Real Gross Domestic Product declined by 30% between 1991 and 1994. Only the 1995 did the sector record a real GDP high on than that in 1991, by a minimal 7%.

Leather Goods Description

- Trunks, suit-cases, vanity, executive cases, brief cases, school satchels and similar containers with outer surface of leather, or composition leather or patent leather,
 - Handbags with shoulder strap or outer surface of leather, or composition leather or patent leather.
 - Articles of a kind normally carried in the pocket or in the handbag with outer surface of leather, of composition leather or of patent leather.
 - Gloves, Mitten or mitts especially designed for use in sports.
 - Belts and bandoleers of leather or of composition of leather.
 - Clothing accessories e.g. shoes and jackets of leather or of composition of leather.
- Kenya leather industry suffers from weak linkage between manufactures of footwear and leather good. Consultation aimed at customers satisfaction are minimal, While manufactures complain of delays in supply of raw materials and low quality, tanners on the other hand assert that they have capability to supply promptly and guarantee quality if only the manufacturers can afford to pay a premium.
 - The technology in most leather goods and footwear industries is outmoded. The most prevalent technology being used by formal sector manufacturers is capital intensive while informal sector manufacturers are on hand tools.
 - **Market:** Local productions satisfy in low-income group. Middle income is partly supplied by imports while the high-income groups depend heavily on illegal imports. The high-income market is not large enough to warrant extra investment in terms of shoe components. Importation of complete shoes has only been allowed in the market segments where the local industry is unable to supply. However, some of the importers have abused this and all sorts of shoes currently find their way on to the local market overloading it.
 - **Raw Materials:** The major material leather is locally obtained from the tanneries. However, high quality leather is exported due to the high price it fetches on the export market, this being at the expense of local shoe industry.

Other materials such as p.v.c. Polyurethane, rubber and other shoe accessories are imported. Soles and shoes upper have also been imported until when a ban was imposed. Many imported raw materials is subjects to duties and V.A.T.

- **Leather Craft:** The leather craft industry is not well-developed inspite of the flourishing tourist market. Several cottage industries in the informal sector specialise mainly in article for the tourist industry. The articles include hand bags, garments and other leather articles

3.0 CONSTRAINTS AFFECTING THE SUB-SECTOR.

- Unfair competition from second hand footwear and leather goods whose duty is computed on weight rather than per items either piece or pairage.
- Dumping of cheap footwear and leather goods
- Unfair competition from :
 - Briefcase businesses who have no overhead costs
 - Importers who don't pay duty or VAT
 - Synthetic being sold as genuine leather exploiting consumers
- No marketing drive in the local market such as; **“Buy Kenya build Kenya”**
- No marketing drive in the Export Market
- Diminishing skills- many of the master craft men involved in the leather sector are nearing retirement so the skill need to be replaced. Skills need to be added in new leather finishing methods, which have not yet reached Kenya.
- Government Policy used to prohibit manufacturers from owning and operating their own retail outlets.
- Production and product design skills exceed the level of marketing skills.
- Quality of leather products limiting the king of end markets that can be effectively targeted.
- Complex and time consuming export documentation.
- Small manufacturers forced to buy a minimum quantity of leather. Also Tanners do not offer trade credit to start-up or to small-scale producers.

- High local manufacturing cost;
 - Duties on:
 - Chemicals
 - Raw Materials
 - Spares and Parts
 - High costs of power
 - Frequent power outages
 - High road transport costs
 - High costs of fuel

- Poor infrastructure
- High interest rates
- Poor telecommunication

3.1 Entry into the Industry

Entry to any of the three sub-sectors of the industry is restricted to person in possession of the buyers' license that is renewable every year.

This requirement is against the tenets of perfect competition, especially because of the very subjective conditions that are required to meet.

By providing for licensing at the area of operation, the Act seems to promote monopoly in the industry by restricting a trader to the specific area. Entry in other areas is associated with extra licensing, costs and time wasted in vetting that the applicant has to under go. If the market fundamentals are right in the industry, there will be no need for law to ensure that traders:

- Keep hides skins or leather free from damage.
- Buy and shell each hide by grade as well as by weight.
- Buy and shell each skin by grade as well as by piece.
- Buy and shell leather by grade as well as by weight etc.
- Carry out the grading of the hides, skins and leather at the time of purchase.
- Keep proper books.

Profit seeking traders in a functioning market will meet these conditions as they endeavor to satisfy wants of the consumers.

Cancellation of the buyers' license needs to be repealed in light of the above recommendations on replacement of license with registration. Deregistration of the business should be left to other Legislation that govern enterprises e.g. Income tax, Bankruptcy Act, Companies Act etc.

3.2 Policy on Exports and Imports of Hides, Skins and Leather

The Policy on exports and imports of hides, skins and leather provides for an indiscriminate licensing of traders exporting or importing these commodities.

The situation on the ground however calls for distinct export and import policies. On exports, the policy stance should seek to discourage exports of raw hides and skins, and to encourage exports of finished leather goods and footwear.

3.3 Imports

The policy should be protection of domestic industries against unfair competition from sub standard products and second hand goods (Anti dumping law is needed to protect the local industries from dumping of leather goods and footwear.

A committee to develop the standards for leather goods and footwear need to be constituted immediately in order to work in collaboration with Kenya Bureau of Standard in developing these standards.

In the meantime, the government should heavily tax second hand shoes.

Imports of the second hand shoes should be banned. This policy should be supported by the industry's commitment to cater for people who go for the second hand shoes because of the price differential between new shoes from the domestic industries and the second hand shoes.

3.4 Exports

Exports of raw hides and skins should be heavily taxed to deter exportation. In order to arrive at a correct customs value on which the exports should be provided by the leather sector consultative group/committee or any other body acceptable to all players in the hides, skins and the leather sector. The Government should consider export duty of 15%

4.0 SUGGESTED SOLUTION FOR THE CHALLENGES

- Defects on hides and skins before slaughter can be addressed through awareness creation among farmers, better animal husbandry, especially disease control. Where dipping is a problem, community projects could be encouraged with view to mobilizing local resources and pooling them for pest control.
- Defects on hides and skins occurring during and after slaughter can be solved by the extension officers who are supposed to safeguard the quality by adhering to strict guidelines of inspection. Grading of hides and skins at time of purchase and offering higher prices for higher quality would help in quality improvement.
- Deregulation of trade in hides and skins is recommended, this policy measure will facilitate supply to respond to higher demand for the products. Given the current shortage of raw hides and skins, in a free market, the ensuring higher prices will be an inducement for the production of high quality hides and skins. This will in turn encourage commercialization of livestock farming, there by addressing the low off take rate that currently hinders supply of hides and skins.
- There is need for the industry to draw self regulating guidelines for standardization of the market practices, for instance grading at time of purchase etc. The motto should be "***buy nothing but the best***".