



LEATHER INDUSTRY



Opportunity in Kenyan Manufacturing



Background and Agenda



Background & Motivation

- ❖ This report aims to map out the current leather industry value chain in Kenya and identify areas within the value chain that present potential investment opportunities
- ❖ This is through comparisons with major leather producing countries and analysis of the local situation
- ❖ Identification of potential opportunities consequently informs identification of potential players in the specific area of the value chain in need and willing to partner with external investors



Key Findings

- ❖ Kenya has a traditionally entrenched leather industry; which is currently trying to re-establish itself. Various measures are in place to ensure the industry bounces back to its historical glory.
- ❖ 89% of exports in leather are in form of wet blue/semi-processed leather. The biggest gap lies in the manufacture of finished leather from wet blue, and manufacture of leather products from finished leather
- ❖ Various challenges include lack of a policy framework to govern the sector, little coordination between key institutions, lack of skills and high costs of production
- ❖ Comparatively, Kenya has a different market structure compared to other countries such as Ethiopia whose market is more government controlled.

Executive Summary

❖ Global leather Industry

- Demand for leather shoes, leather fashion accessories and cars with leather seats which are considered luxury items is correlated with economic growth. Estimated global trade value of USD 100 billion per year. China is the most significant player in the leather industry.
- South Korea, Taiwan, China, Indonesia and Vietnam import large quantities of hides and skins to supply the fast growing leather industry in those countries.

❖ African leather industry

- The continent continues to play a marginal role in world's leather industry particularly in finished products; despite being hugely endowed in terms of resources.
- African countries have 15% of the world's cattle and 25% of its sheep and goats, but produce only 14.9% of global output of hides and skins - 8% of bovine hides and 14% of sheep and goat skins.
- Exports of hides and skins have fallen in recent years to below 4%, yet leather is ranked very high as an export commodity in several African countries. The countries' tanning capacity has fallen from 9.2% to 6.8%. At the same time, the livestock population has jumped about 25% over the last decade, faster than the world trend.

❖ Implications for Kenya:

- There remains a huge gap in terms of finished leather processing and leather products manufacture in the country
- Significant barriers include lack of skills for manufacture of leather products, little incentives in terms of policy framework to enhance local manufacture, little information availability and coordination between various key industry players and little investment in final product manufacture
- The industry is poised for growth given increased interest by the government through establishment of the KLDC and increased focus by the Ministry of Industrialization and Enterprise Development

I. Global Leather Industry Overview

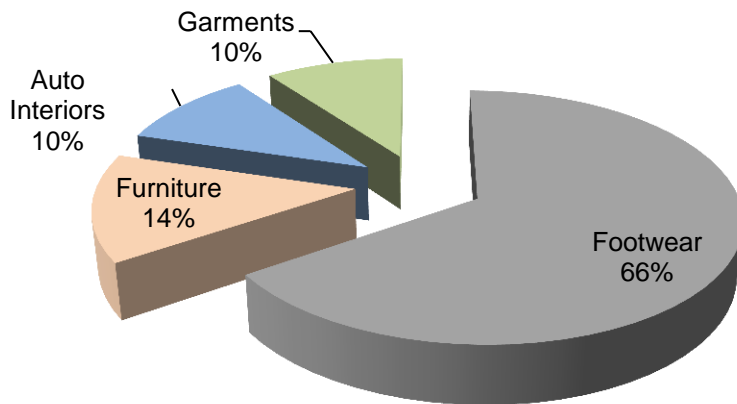
Global Overview: Leather Industry

There has been a recent shift from Europe to Asia due to changing competitive advantages

Snapshot

- The global demand for leather products is higher than the current supply. Growth rates for leather in developing countries are twice as high as in developed countries. This is primarily due to increasing population and increasing disposable incomes.
- Globally, over the past recent years there has been a shift in terms of leather and leather products production. This is due to changing comparative advantages, from Europe to Asia, and within Asia, from East Asia to South Asia
- China, India, Vietnam, Korea Japan etc. for example produced twice the amount of leather than Europe did in 2013; producing 12.1bn sq. ft. of compared to Europe's 6.3bn sq. ft.
- The U.S is the biggest importer of footwear in the world, with a demand of 2.3bn pairs at a value of USD 24.2bn, representing 24.8 percent of the world footwear trade

Leather Utilisation



Total Volume 2013: 23bn sq. ft.

Africa Snapshot

- Africa has largely played a marginal role in the global leather industry
- The continent is home to 20% of the global livestock population but only accounts for 4% of the world leather production and 3.3 percent of the global leather value addition

Global Overview: Leather Industry

China remains a significant player globally. However, there is a shift to environmentally friendly production

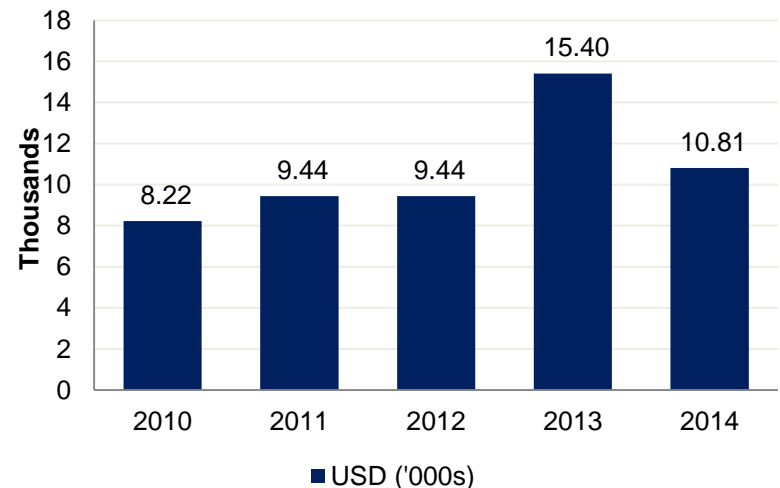
Key Insights

- China remains the largest producer of leather, producing 4.5bn pairs in 2014, out of which it exported 964.97mn pairs. This is buoyed by cheap labour and a huge population base that ensures demand
- However, there is a shift to environmentally friendly production methods. This has caused a drop in leather production, e.g. In March 2014, a number of tanneries were stopped from operating due to excessive effluent by the local governments of the northern provinces of Hebei and Xinji
- The rising production costs due to increased private sector share in tanning, the increased focus on environmental issues and labour demands have decreased China's competitiveness, resulting in the third largest exporter becoming an emerging importer of finished leather.

Implications for Kenya

- Kenya needs to take advantage of the growing demand for processed leather by increasing its manufacture of finished leather and leather products
- Additional investments are however also needed in the downstream, to ensure quality of the hides and skins.
- More also needs to be done in terms of policy framework, quality control and local demand for locally made leather goods

Chinese Imports of Raw Skins and Hides from Kenya



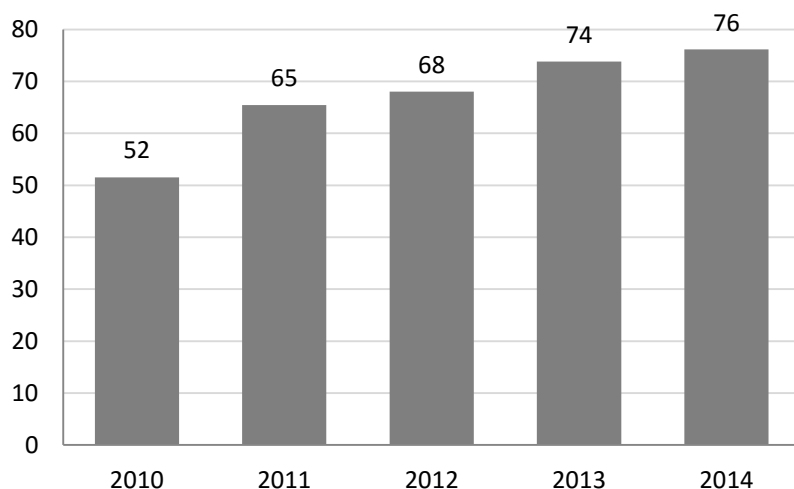
Global Overview: Leather Industry

Technological know-how, limited skills and poor governance are some of Africa's biggest challenges

Export of Leather Products: Global Leaders vs. Select African Countries

USD '000s	2010	2011	2012	2013	2014
China	20,845,584	26,892,326	28,243,843	30,673,231	30,366,532
Italy	4,993,087	6,802,293	7,354,421	8,422,023	9,095,016
India	1,446,996	2,023,911	2,036,379	2,513,188	2,548,218
U.S	1,214,459	1,365,039	1,539,722	1,643,902	1,625,095
Indonesia	246,372	292,088	324,665	338,076	322,194
South Africa	55,959	67,887	63,119	61,423	84,662
Brazil	90,244	77,353	65,220	57,335	59,418
Ethiopia	640	676	3,010	3,286	5,440
Kenya	2,201	1,966	-	2,039	3,153

Value of Global Export of Leather Products (USD bns)



- China, Italy and India remain some of the biggest players in terms of export of leather products
- African countries rank low in terms of export of leather products, despite the huge resource endowment, highlighting the untapped opportunity in leather product manufacture
- Key differences remain technological know how and equipment availability, skills gap, cultural differences and sector governance

I. Kenyan Focus

Industry Overview

Kenya has a strong resource pool in terms of livestock numbers and an historically entrenched industry

Overview

Livestock:

Cattle: 13mn
Sheep: 9.8mn
Goats: 13.8mn
Camel: 1.1mn
Other: 0.4mn pigs, 0.01mn Ostrich

Off-take rates:

Cattle: 10.2%
Sheep: 28.1%
Goats: 33%
Camels: N/A

Hides & Skins

Hides: 2.5mn pieces
Sheep Skins: 2.7mn pieces
Goat Skins: 5.4mn pieces

Tanning

Tanneries: 19
In operation: 15
Installed capacity
Hides: 3.3mn
Skins: 6.3mn

Industry Output: raw hides and skins Wet Blue, crust, finished, leather products

Key Institutions involved in Leather

- **Kenya Leather Development Council (KLDC)** – Lead policy formulation & Implementation, Established 2010
- **Kenya Industrial Research and Development Institute (KIRDI)** – Research Institution. Falls under Ministry of Industrialization, Established 1979
- **Training Institutions:**
 - **Training & Production Centre for the Shoe Industry (TPCSI)** – Established under UNIDO initiative, 1994
 - **Animal Health & Training Institute (AHITI) – Established by FAO, 1965**
 - **Kenya Industrial Training Institute (KITI) – Established in 1965 with help from JICA**
- **Associations:**
 - Leather Articles Entrepreneurs Association (LAEA)
 - Kenya Association of Manufacturers (KAM)
 - Kenya Tanners Association
 - Kenya National Federation of Jua Kali Association
- **Others:**
 - Export Promotion Council
 - Kenya Investment Authority (KenInvest)
 - Kenya Bureau of Standards

Industry Overview: Tanneries

The number of tanneries increased/reopened post – the introduction of the tariff on export of raw hides & skins

Tannery	Qty of Wet Salted Hides p.m	Goat & Sheep Skin (pieces p.m)	Capacity Utilization (%)	Level of Production		
				Wet Blue	Crust	Finished
Bata Shoe Ltd	Crust/Finished 600,000 sq. ft.	N/A	100	*	*	*
Alpharama	650 tons	400,000	100	*	*	*
Leather Industries of Kenya	300 tons	100,000	50	*	*	*
Aziz Tanneries Ltd	300 tons	200,000	N/A	*	*	*
Sagana Tanneries	200 tons	50,000	N/A	*	*	*
Nakuru Tanneries	200 tons	150,000	N/A	*		
Dogbones Ltd	300 tons	N/A	N/A	*		
Nairobi Tanneries	50 tons	50,000	70	*		
East Africa Tanneries	N/A	250,000	85	*	*	*
Athi River	250 tons	100,000	N/A	*		
MAS Trading Company	200 tons	N/A	100	*		
Zingo Tanneries	300 tons	200,000	80	*		
Faaso Import & Export	100 tons	50,000	N/A	*		

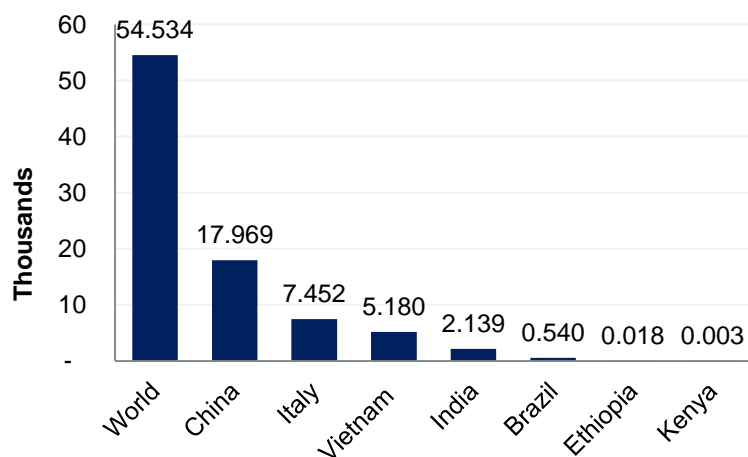
Comparable African Country Performance

Ethiopia is emerging as a force to reckon with in terms of finished leather and leather products production

Raw Skins & Hides: Ratio to Local & World Exports

Year	Ethiopia		Kenya		Egypt		Tunisia	
	% of Ethiopia Total Exports	% of World Total Exports	% of Kenya Total Exports	% of World Total Exports	% of Egypt Total Exports	% of World Total Exports	% of Tunisia Total Exports	% of World Total Exports
2007	7.31	0.3	1.16	0.1	0.23	0.1	0.17	0.1
2008	5.68	0.3	0.97	0.2	0.24	0.2	0.15	0.1
2009	2.64	0.2	0.66	0.1	0.48	0.6	0.14	0.1
2010	2.88	0.2	1.03	0.2	0.65	0.6	0.21	0.1
2011	4.69	0.4	1.42	0.3	0.48	0.5	0.26	0.1
2012	2.96	0.3	-	-	0.41	0.4	0.28	0.1
2013	2.54	0.3	1.81	0.3	0.60	0.5	0.29	0.1

Value of Leather Footwear Exports (USD bns)



Major Trading Partners

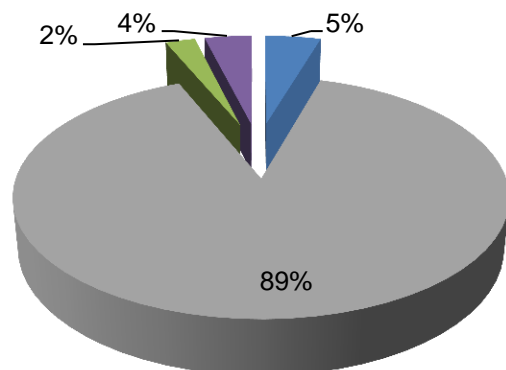
Production Chain	Potential Market
Raw Hides and Skins Wet Blue	Italy, China, Spain, Japan, Korea, Mexico, Turkey, Pakistan, India
Crust Finished Leather	China, Italy, India, Korea
Finished footwear Other leather products	USA, UK, Scandinavia., Holland, Germany, Chile

Export Composition & Value

Introduction of the tariff on export of raw skins and hides has boosted export of semi and processed leather

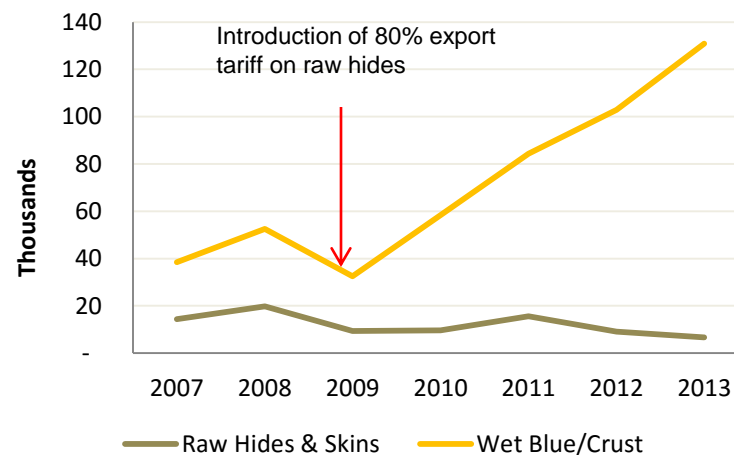
Exports (USD '000s)	2007	2008	2009	2010	2011	2012	2013	CAGR
Raw Hides & Skins	14,337	19,830	9,374	9,603	15,538	9,154	6,652	-12%
Wet Blue/Crust	38,477	52,505	32,467	58,355	84,309	102,888	130,905	23%
Finished Leather	456	524	843	2,987	4,206	4,439	3,542	41%
Finished Leather Products	717	1,647	2,521	5,545	3,030	5,078	5,632	41%
Total	53,987	74,506	45,205	76,490	107,083	121,559	146,731	18%

2013: Export Composition



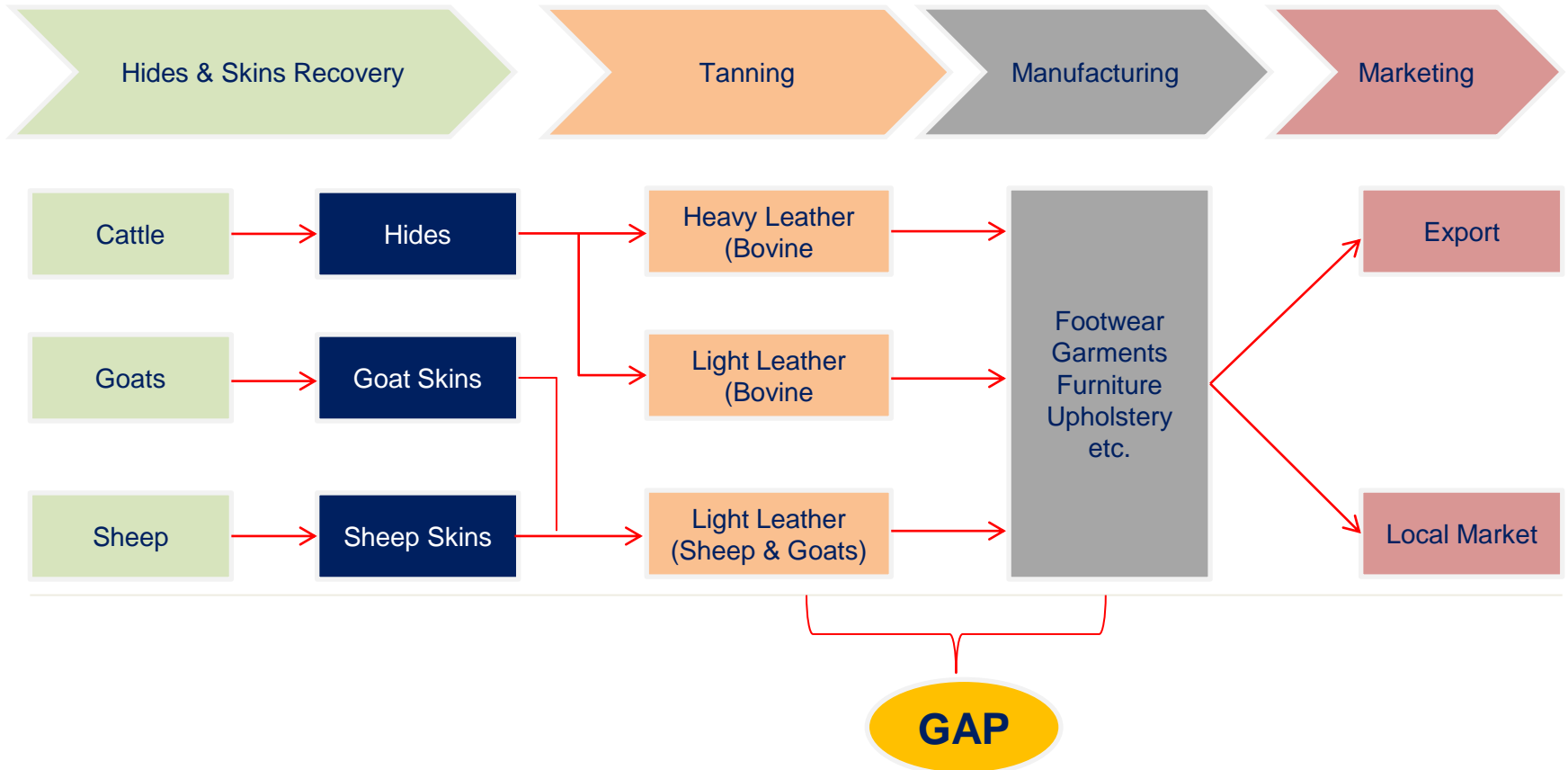
- Raw Hides & Skins
- Wet Blue/Crust
- Finished Leather
- Finished Leather Products

Effect of Tariff introduction



Value Chain Overview

Various initiatives are needed at different levels of the value chain to ensure a resurgent leather industry



- Labour Intensive
- 5% of Exports

- Capital Intensive
- 89% of Exports

- Labour Intensive
- Finished Leather: 2% of Exports
- Leather Products: 4% of Exports

SWOT Analysis

One of the biggest threats remains cheap second hand imports. Regional integration an opportunity to tap into

STRENGTHS:

- Abundant livestock
- Long history in the leather industry
- Abundant labour
- Presence of functioning tanneries
- Self organized cluster in Kariokor market

WEAKNESSES:

- Lack of skilled artisans and training programs
- Poor animal husbandry
- Low quality of skins and hides due to branding, diseases and poor handling at abattoirs
- Lack of funding and investment in R&D
- Poor local product demand culture
- Lack of capacity to meet bulk orders
- Lack of machinery
- Lack of Kenyan leather brand recognition globally
- Lack of quality enforcement
- Poor equipment and fraying in abattoirs

OPPORTUNITIES:

- Tap into on-going integration and boost trade within EAC
- Rising Middle Class
- Increased focus on the sector by the government, including being a potential beneficiary of the Industrialization Fund to be set up
- Growing Informal sector
- Big pool of potential labour
- Lack of vibrant leather industry in most neighbouring countries
- Increased environmental focus in markets such as China

THREATS:

- Increasing competition from Ethiopia and China
- Lack of a policy framework to guide entire sector
- Poor coordination between various players in the value chain
- Huge influx of second hand items – *mitumba*
- High reliance on imported components
- Poor knowledge sharing and lack of a database to guide decision making in the sector
- Lack of funding and capacity building

The *mitumba* industry: Overview

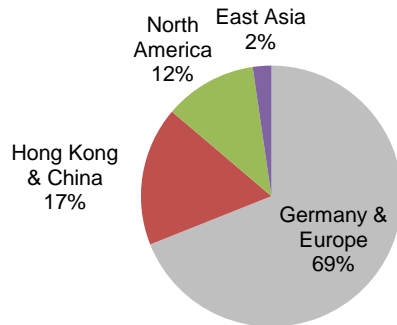
The second hand *mitumba* industry is the largest source of footwear purchases and imports in the country



- Kenya faces intense competition from second hand imported footwear. The same challenge is faced by the textile and garments industry
- Second hand imports make up approximately 57 percent of the total footwear purchases in the country; underlining their popularity
- Europe remains the biggest source of second hand leather footwear in Kenya, with an estimated 6 million pairs

Type of Footwear	Total Pairs Sold	Non - Leather	Leather - Imported	Leather - Kenyan
Second hand mitumba	26.5	18.0	8.5	-
New low price	12.9	8.1	2.2	2.6
New mid price	2.2	0.6	0.9	0.7
New High Price	0.2	-	0.2	-
Total	41.8	26.7	11.8	3.3

Origin of Kenyan leather footwear



- Second hand products started to flow into Kenya in the 1970s and 80s due to increased activity of NGOs and humanitarian organizations
- This has posed the biggest challenge to local markets. The leather industry continues to suffer as a result

Key Insights

The biggest gap lies in the processing of finished leather and leather products



I. Appendix

Top 10 Destinations for Kenyan Leather Footwear Exports (USD '000s)

#	2009	2010	2011	2012	2013
1	Uganda 460	Zambia 1575	Uganda 360	Zambia 743	Uganda 827.87
2	Tanzania 241	Uganda 1292	Tanzania 313	Uganda 558	Zambia 735.86
3	U.K 182	Tanzania 294	Zambia 189	U.S 207	Tanzania 322.9
4	Malawi 12	U.K 251	South Africa 134	Japan 196	Zimbabwe 156.22
5	Israel 64	Malawi 108	Japan 131	Tanzania 196	Malawi 143.21
6	South Africa 41	U.S 93	U.S 112	South Africa 155	U.S 113.78
7	U.S 37	South Africa 45	U.K 109	Turkey 148	Japan 99.36
8	Rwanda 34	Australia 31	Rwanda 37	U.K 112	Italy 71.04
9	Germany 29	Austria 21	Spain 26	Zimbabwe 95	U.K 54.85
10	Italy 25	Germany 19	Austria 25	Rwanda 41	South Africa 36.74

Case Study: Ethiopia Leather Industry Development Institute (LIDI)

Establishment of KLDC a good initial step for Kenya in ensuring a competitive leather industry

Overview

- Established by Ethiopian Federal Government in 1998 as the Leather and Leather Products Technology Institute to spearhead capacity building and technology transfer
- The entity works closely with all the players in the leather value chain in terms of capacity building and trainings and has played a key role in bringing the Ethiopian leather industry to what it is today

- LIDI support offered to the leather industry in Ethiopia:
- **Benchmarking:** To promote greater competitiveness in the Ethiopian. This is through identification of globally competitive leather enterprises and sponsoring the process of aiding selected Ethiopian entities to achieve similar levels of competitiveness. Support offered include input supply, marketing, product quality and resource development.
- **Twining:** To establish long term knowledge sharing with globally recognized institutions and advanced counterparts in other countries such as India's Leather Products technology Institute.
- **Direct Assistance:** This is through provision of its facilities to leather producers to facilitate production as well as assistance in production and design
- **Market Research:** Constant research on trade agreements and markets for the industry manufacturers
- **LIDI'S facilities are offered at minimal cost to the leather players to ensure all the players can easily access its services**

Implications for Kenya

- Kenya has taken similar steps in establishing an oversight body through setting up the Kenya Leather Development Council (KLDC). However, KLDC is yet to develop a policy framework for the leather industry
- LIDI's success comes from both strong backing and funding from the government. Its strong ties with the leather players in the entire value chain enables effective engage with the stakeholders