

Revitalizing the Leather Industry to Foster Economic Transformation

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Introduction

The Kenya Vision 2030 economic pillar underscores the importance of creating a robust, diversified and competitive manufacturing sector. The economic blueprint aims to achieve the goal by revamping local production and expanding participation in regional markets. The African Continental Free Trade Area (AfCFTA), for instance, provides a competitive trading environment and market to foster economic transformation.

Despite the opportunity that AfCFTA presents, Kenya's prospects in manufacturing declined in the past decade. As an example, Kenya's manufacturing as a share of GDP declined from 13 per cent in 2013 to 7 per cent of GDP in 2021. Expansion of manufacturing sector is critical for job creation and economic growth. In addition, manufacturing attracts foreign investment; manufactured goods offer opportunities for increased value addition and call for robust trade logistics. The trade logistics can be achieved through understanding the factors curtailing Kenya's potential and how the country can alleviate the situation and exploit the AfCFTA potential.

Despite being the fifth largest cattle producer in Africa, after Ethiopia, Chad, Sudan, and Tanzania, Kenya's value in leather trade remains low. This implies that most of the country's leather is never utilized, with little effort to exploit its potential through trade. The leather waste translates into a lost opportunity for employment creation, improved livelihood, and tax revenue. The Institute of Economic Affairs (2021) report shows that Kenyans spent Ksh 197.5 billion in 2019 on clothes and footwear. Put into context, every Kenyan spends Ksh 4,150 a year for the purchase of second-hand garments, new clothes, or footwear. The domestic consumption trends point to the great potential and opportunity for the hides and skins sector in Kenya. Globally, there is a growing demand for leather products. These opportunities point to the need to strengthen policies that support firms to transform hides and skins into leather products.

Constraints to Growth in the Leather Industry in Kenya

The industry experiences high levels of wastage of hides and skins, the raw materials necessary for increased production of leather. The Ministry of Agriculture, Livestock and Fisheries 2019 report indicates that Kenya has over 18 million herds of cattle, 27 million goats, 17 million sheep,

and 3 million camels - reared for milk and meat. Skins and hides are some of the by-products when livestock are slaughtered. However, improper handling and storage of hides and skins at slaughterhouses with limited storage capacity and facilities leads to wastage and reduces the quality of the hides and skins.

Textiles and leather industries are the second largest employers after the food industry, since they have a direct effect on the population and the export market. The sector contributes to high employment as it requires a long process involving other sectors in the value chain of skilled and unskilled labour from the farm to the market and consumers. Minimizing the wastage of raw materials will enhance the potential gains.

Before the early 1990s, Kenya's tanning industry thrived due to export compensation. During this period, the industry had about 19 tanneries with a capital investment worth Ksh 3.8 billion and employed about 4,000 people. The Narok tannery, currently worth about Ksh 1.4 billion, is the largest in the country. The operational capacity utilization averaged 80%. However, a significant decline in the leather industry was observed with the abolishment in 1990 of the 22 per cent export compensation. This resulted in a drop in the average capacity utilization from 80 per cent to 30 per cent, with the number of tanneries reduced to 9 with a minimal increase to 11 in the year 2005 with 16 licensed tanneries.

Kenya's leather exports consist of semi-processed tanned "wet blue" leather at 90%, raw hides and skins at 5%, finished leather at 2%, and 3% leather footwear. Leather footwear is the biggest leather goods sub-sector in Kenya, while handbags are the most competitive. Kenya can build on its comparative advantage on quality handbags travel ware and cases by improving the quality of its products, building the "Made in Kenya" brand distinction, and helping create customized products.

Smuggling of raw hides and skins has continued regardless of policies to discourage the export of raw hides and skins by imposing an 80% export tariff on raw hides and skins in 2009. Despite the imposition of the tariff barrier, there has been a high level of smuggling of exports of raw hides and skins. This trade of raw and semi-processed leather generates meager marginal returns to the investment of livestock farming that would result in meaningful returns. Value addition in the leather sector has therefore been minimal, and most of Kenya's exports have been in the form of unprocessed, raw hides and skins.

There is a wide gap between resources in the leather industry and production despite the industry's great potential. The strategies for reducing the gap are hence critical for economic and industrial development. The strategies to increase uptake of the locally designed and manufactured apparel, textiles leather, and accessories include support for the "Buy Kenya Build Kenya" campaign.

Policy Recommendations

Investing in manufacturing leather products will drive economic growth by expanding exports of both semi-processed and finished leather goods. The development of the leather sector involves the improvement of the raw materials' base through the quality of hides and skins, boosting the tanning sub-sector, producing leather goods, and efficient marketing. The leather sector in manufacturing has the potential of playing a key role in creating gainful employment for the youth, especially in the pastoralist communities where livestock is the main economic activity. The specific recommendations are presented below:

- (i) Facilitation of farmers through capacity building on ways to improve the quality of raw hides and skins, improve quality and hence enhance revenue generation. This can be achieved by bringing on board veterinary and agriculture extension personnel to assist farmers adopt modern livestock management techniques, and manufacturing of quality animal feeds. This will enable the country to launch leather-specific projects in agro-processing for cluster building in the sector, which helps build comparative advantage while enhancing the realization of the sector's full potential.
 - (ii) The Government of Kenya and private institutions could organize individual middle value chains under micro and small enterprises for management of the hides and skins sector to generate essential additional employment for people in the poverty-stricken areas who have the sector as their main source of livelihood. This can be achieved by building model factories of leather tanneries for small and medium enterprises.
 - (iii) Creating an enabling environment to accelerate industrial development can be achieved by establishing industrial parks and zones supporting livestock industry infrastructure and ensuring ease of
- (iv) Effective and proper farming methods in the utilization of livestock by-products will ensure reduced prevalence of skin diseases and parasites through adequate veterinary services. Implementing these strategies in addition to funded research and development on livestock farming will help achieve higher potential and returns.
 - (v) Frequent training and seminars on current livestock farming trends of the industry are necessary, so that farmers are up to date with the current farming methods and trends. This frequent awareness raising through training programmes for different bodies responsible in each stage of the value chain, from farmers to the market, by the government and other stakeholders, will ensure maximum returns and realization of the full potential of the sector.
 - (vi) Production and regulatory institutions need to introduce and reinforce standards and quality of leather products from the industries. Standardization and harmonization helps facilitate transactions, while reducing the costs in the trade of goods from their places of origin. Standardization leads to trade promotion while supporting institutions' coordination to realize maximum benefits. The activation of country systems in the leather industry enhances production, and thus assists in tackling most of the economic imbalances especially in the arid and semi-arid areas where poverty levels are highly pronounced. The development of the leather industry is a precursor to the reduction of poverty in rural areas. Being a labour-intensive industry, the sector is an important source of employment across the various nodes in the supply chain.

Endnotes

World Bank (2021), Manufacturing, value added (% of GDP) - Kenya. WDI. <https://data.worldbank.org/indicator/NV.IND.MANF.ZS?locations=KE>

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KIPPRA Policy Briefs are aimed at a wide dissemination of the Institute's policy research findings. The findings are expected to stimulate discussion and also build capacity in the public policy making process in Kenya.

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