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Thinking Policy Together

Towards Revitalizing the Domestic Skins, Hides and Leather Products in Kenya

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1. Introduction

The skins, hides and leather industry sector is among the strategic industries that offer an opportunity for Kenya's economic transformation and sustainable development. According to the Kenya Economic Survey 2018, the sector currently contributes an estimated 12% of Gross Domestic Product (GDP), 40% to the agricultural GDP and employs 50% of agricultural labourforce with an estimated 10 million Kenyans largely deriving their livelihoods from the sector.

It is estimated that in 2019, there were 3.3 million exotic cattle, 14 million indigenous cattle, 17 million sheep, 28 million goats, 2.9 million camels, 334,689 pigs, 26 million indigenous chicken, 6 million commercial chicken, 1.8 million bee hives and 1.8 million donkeys. Apparently, Kenya is the third largest holder of livestock in Africa behind Ethiopia and Botswana. Despite the large livestock population in the country, the potential for value addition and diversification of leather sub-sector is under-utilized. In 2015, an equivalent of 112,000 tons of leather were produced in Kenya from 2.62 million and 20.33 million pieces of hides and skins, respectively.

The leather exports consist of semi-processed tanned "wet blue" leather (89%), raw hides and skins (5%), finished leather (2%), such as leather footwear and handbags, and travel ware, while the remaining 4 per cent comes from other leather products. For a long period, skins and hides have not been considered as important products that can change the welfare of livestock farmers while driving economic growth. Hides and skins are by-products of the livestock sector with high potential for employment and wealth creation if the potential is well harnessed.

Presently, the leather industry is estimated to employ 14,000 people with 10,000 being in informal leather sector. Yet, the sector has potential to directly create over 60,000 decent jobs, the bulk of which would be in the rural areas where livestock keeping is dominant. Effective implementation of programmes identified in the "Big Four" agenda, among other policy measures can turn around the sub-sector to meet to the full potential.

2. Evolution of Legal and Institutional Frameworks in the Leather Industry

The Regulatory Framework

The legal and institutional architecture governing the leather sub-sector has undergone reforms over the years. In particular, the skins, hides and leather sub-sector finds its anchorage in the Hides, Skins and Leather Act (Cap 359) (2012) 2017 and has undergone several amendments in 1987; 2012 and finally in 2017. The objective is to improve the operational environment while offering the right incentives for the development of the sector, especially towards value addition.

Initial stipulations of the Act encouraged exportation of raw hides and skins at the expense of promoting value addition – tanning and leather products development. During the import substitution and pre-liberalization era (1980s and early 1990s), the Act stipulated export taxes as follows: 2% on raw hides, 1% on wet blue leather, and 0.5% on crust and finished leather to discourage exports. The government policy at the time thus discouraged domestic value addition, thereby stifling processing and manufacturing of leather products. During this period the country's trade policies evolved from import substitution towards outward orientation. Though it was by no means a straight forward journey, the country had, by the end of the period, a relatively low and harmonized tariff structure and numerous policies aimed at supporting the growth of exports.

Exportation of raw skins and hides continued even after a shift of policy and escalation of prohibition of export of raw hides and skins through adjustment of the export tax to a high of 80%. However, there was a gradual reduction in volume of exports from 2006 in a bid to lay grounds for value addition and development of the leather value chain.

Regulatory reforms also saw the establishment of new institutions. These include: the Kenya Livestock Marketing Council (KLMC) established in 2000 as a civil organization to assist in marketing of livestock and livestock products and Kenya Leather Development Council (KLDC), a State Corporation established to provide policy direction, harmony and coordination to the leather sub-sector in the country. KLDC was formed on a private-public partnership platform to represent parties in the leather sector.

Other important legislations in the sector include the Export Processing Zones Authority Act (EPZA) revised edition 2015 (2012) and the Environmental Management and Coordination Act (EMCA) 1999. EPZA forms the anchorage to establishment of industrial parks that may relate, among others, to leather industrial park thus promote the export of livestock products. The EMCA provides for the establishment of an appropriate legal and institutional framework for the management of the environment, thus provides the environmental requirements of establishment of livestock industrial parks, tanneries and slaughterhouses, and gives guidelines on the management of waste from these establishments.

A summary of the institutional framework is shown in the table below:

3. Challenges Facing the Skins, Hides and Leather Sub-sector

The leather industry faces numerous challenges. These challenges are unique to some specific levels of the hides, skins and leather supply chain.

Farm level challenges

- **Declining productivity of skins and hides:** The average size of skins and hides has fallen from 28 sq. ft. to 16 sq. With low technology uptake, the decline in size implies a decline in the total value of final output, hence reduced incomes.
- **Low prices, poor connectivity and distant markets:** The small size also implies that the prices fetched by producers are low, disincentivizing production and selling of skins and hides. In addition, the distance to markets coupled with poor infrastructure further depress market prices.
- **Limited knowledge on hides and skins husbandry practices:** Livestock keepers are often not concerned with quality of skins and hides. There is also the tendency to use rudimentary techniques to brand the animals, thereby damaging their skins and hides in the process.
- **Low public investments in livestock production and by extension the skins, hides and leather sector:** Even before devolution of agriculture and livestock production, the sub-sector has been struggling to support services such as extension. The veterinary service in Kenya is largely driven by the private sector with little support from the Government. This means that most pastoralists rely on traditional knowledge in the management of their livestock.
- **Poor skins and hides flaying techniques:** With poor extension services, livestock keepers fail to get adequate skills on how to handle skins and hides especially the flaying techniques. At household level, flaying is mostly applied in skinning of carcasses. This leads to flaying cuts, gorges on skins, and hides reducing quality.

Marketing and trading obstacles

- **Low and poor timing of livestock sales:** Livestock off-takes are often low to warrant scale economies. A considerable proportion of skins and hides does not reach the market. It is estimated that the total off-takes 14% of hides, 34% of sheepskins and 29% of goatskins do not reach the market.
- **Limited information on differential prices with respect to quality:** Although there are stipulated grades and standards by the Veterinary Department, there is little adherence to these because of poor animal husbandry. Skins and hides are sold in pieces and weight, respectively, and do not necessarily reflect the quality of the hides or skin. This is compounded by limited information and other transaction costs.
- **Cartel-like buying of hides and skins:** Skins and hides are purchased in what appears like a controlled entry market, such that only one buyer per region controls the market. As such, livestock keepers have no option rather than being price takers.

Function(s)	Institution(s)
Policy Development	Ministry of Agriculture and Livestock Development Ministry of Industry, Investment and Trade
Advocacy, Advisory and Trade	Kenya Association of Manufacturers (KAM) Kenya Livestock Marketing Council (KLMC) Kenya Leather Development Council (KLDC) Economic Processing Zone Authority (EPZA) Leather Articles Entrepreneurs Association (LAEA)
Research and Technology Development	Kenya Industrial Research and Development Institute (KIRDI)
Education Institutions	Universities and other higher institutions of learning Dedan Kimathi University of Technology Technical University of Kenya - formerly Kenya Polytechnic
Training Institutions	Animal Health and Training Institute (AHITI) Kenya Industrial Training Institute (KITI) Training and Production Centre for the Shoe Industry (TPSCI)

- **Poor storage facilities:** At the farm level, skins and hides are dried in "mbandas" which are dilapidated or poorly constructed. This does little to ensure quality (e.g. with leaking roofs, infestation with pests) that expose hides and skins to damage.

- **Lack of effective grading system:** At the abattoirs, slaughterhouses and slabs, which is the beginning of the skins and hides processing, generally grading is not carried out and the handling of the skins and hides is poor. The level of capacity of understanding the grading and quality requirements is low among a majority of actors at this level of the value chain.

- **Barriers to international trade:** Low scale of production limit scale gains at international trade markets. Escalation of taxes on finished leather makes exported leather products uncompetitive. Most of exported leather is wet blue, which is considerably semi-processed rather than final.

Abattoirs, Slaughterhouses & Slabs

- **Improper skinning of carcasses:** Flaying is mostly applied in skinning of carcasses. This leads to flaying cuts, gorges on skins, and hides reducing quality.

- **Inadequate veterinary coverage:** Most of the slaughtering process takes place in the evening, making it challenging for the veterinary inspectors to execute their responsibilities. The veterinary services are also grossly underfunded by the government.

- **High fixed and variable costs:** A prohibiting factor in the skins and hides development is the high cost of investment in abattoirs and slaughterhouses. Even when the costs are affordable, challenges related to management prohibit profitable running of abattoirs and slaughterhouses, especially public ones.

Tanneries

- Low supply of raw hides and skins: Poor collection of skins and hides and high logistics cost of collection lead to low supply in tanneries. Supply driven by off-take rates are cattle 8.2%, sheep 28%, goats 41% compared to world's off-take rates at 20% cattle, 43% sheep and 43.8% goats.

- **High fixed and variable costs:** Like with the abattoirs and slaughterhouses, investment at tannery level are prohibitively high. The highest fixed cost (74%) emanates from costs of technology and land while the highest variable costs (30-50%) emanates from chemicals. Other high investment costs relate to treatment of effluents to meet the environmental requirements, which have increasingly become stringent.

- **Capacity under-utilization:** Due to low supply of skins and hides, tanneries tend to have idle capacity. On average, 25% of processing capacity is idle annually.

- Outdated leather processing technology: Most of the tanneries process skins and hides up to wet blue and then export. Output enhancing technologies such as splitting technology is not common in most of the tanneries. Splitting technology would increase the scale of output and amplify returns almost fourfold depending on the quality of hides and skins. Technology for processing leather to finished stage is quite expensive, requires more skilled labour and inaccessible to most tanneries.

Manufacturing level

- **High cost of production:** This is mainly the cost of installation of equipment and machinery (technology), labour, energy, cost of inputs (processed leather), and value added tax.

- **Low level of skills:** There are few graduates of leather related courses, including machine operators, technologist, biochemists, environmentalists, engineers, fashion designers and marketers from the existing technical institutions. In addition, there is little innovation from the few leather production graduates.

- **Competition from imports and synthetic products:** Imports of used leather products ("mitumbas") reduce the market share of domestic leather products and hence the incomes of domestic leather product developers.

- **Lack of incentives to local leather product manufacturers (informal and formal):** Local traders lack incentives to support their leather ventures. Whereas many expect access to affordable credit facilities, majority in the informal leather sector do no access due to high interest rates (price of the loans) and the uncertainty of their businesses to sustain repayments.

4. Strategies for Revamping the Leather Industry

Despite the challenges, there are opportunities for revamping the leather sector to play its rightful role in the development of the economy.

Effective policy and coordination: The overall policy should be aligned with the industrial transformation, national trade policy and the manufacturing strategy stipulated in the Kenya Vision 2030's "Big four" agenda. Besides, effective coordination between the National and County Governments, and amongst implementing agencies in the leather sector would be essential for eventual turnaround of the sector.

Investments in new technologies, innovations and training/skills development: This can be facilitated through PPP framework at all levels of the livestock value chain. The introduction of new technologies, including splitting technologies will enhance production and productivity. Besides, innovations and development of firm capabilities are essential for enhancing competitiveness of the sector and for exporting products in regional and global markets. In addition, enhancement of skills require close collaboration between training institutions, including technical institutions, polytechnics and universities with industry players.

Enhancing livestock production and marketing: There is a huge potential for livestock production to grow more skins and hides supply. A well-resourced and reliable supply base of skins and hides is an important determinant of the leather industry competitiveness. The vast swaths of land in the arid and semi-arid lands present an opportunity for increased livestock production that would increase the supply of skins and hides. There is need to develop the livestock production infrastructure, including market facilitation structures as a way of increasing off-take rates.

Provision of extension services to farmers and abattoirs: To grow quality skins and hides and incentivize the livestock farmers to sell the skins and hides, increased investment in skins and hides extension services and provision of financial services is required. Livestock producers often fail to access the services from skins and hides extension service agents on how to grow quality skins, and hides. This is a role County Governments should effectively play in conjunction withth the private sector.

Incentives for scaling up aggregation of skins and hides: Preservation and organized collection of raw skins and hides is very critical in determining the quality and quantity of leather products. More than 30% of the skins and hides from household or farm slaughters is never collected. The other associated challenges faced by aggregators are logistics and storage. There is need to establish appropriate and well-organized structures for storage and collection to minimize losses arising from rots and defects of raw materials.

Promote private sector engagement at tanning and leather product development: Investment at the level of value addition relate to tanning and leather product development. So far, many tanneries constructed by the National and County Governments have installed or operate below capacities due to neglect and lack of managerial capabilities. Whereas the National and County Governments may not operate tanneries and manufacturing plants, they should provide appropriate physical infrastructure, including water, power and treatment plants and encourage private sector investments in these levels of the value chain.

Increase investments in Research and Development (R&D): There is need to increase investments in research, skills development and innovation. In essence, this will foster development of appropriate machines for small and medium enterprises (SMEs) to integrate them into the downstream value chain.

About KIPPRA Policy Briefs

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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