



## **THE NATIONAL LEATHER AND LEATHER PRODUCTS POLICY**

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## **FOREWORD**

The National Industrial Policy stipulates that sub-sector policies key to the socio-economic transformation of the country be developed. In addition, the Ugandan National Trade Policy seeks to develop and nurture private sector competitiveness, and to support the productive sectors of the economy to trade at both domestic and international levels, with the ultimate objective of creating wealth, employment, enhancing social welfare and transforming Uganda from a peasant society into a modern and prosperous society.

Government has identified leather and leather products as one of the value chains that has tremendous potential for creating employment, foreign exchange earnings, and attract profitable investments. The main aim of this National Leather and Leather Products Policy therefore, is to attract and encourage investments in value addition to produce finished leather and leather products.

The Policy also focuses on enhancing measures geared towards preservation of the environment, upgrade of technology and development of requisite skills. The Policy promotes both vertical and horizontal collaboration for research and development, information sharing and market access.

The National Leather and Leather Products Policy was developed through a participatory approach involving key stakeholders in the value chain. I urge both the public and private sector stakeholders, and all other development partners, to play their roles in implementing this Policy in order to achieve the desired goals.

FOR GOD AND MY COUNTRY

  
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# **1 INTRODUCTION**

## **1.1 Background**

Over the last two decades, Government has implemented a number of macroeconomic policies, plans and strategies to revive the national economy. These policy reforms include liberalization and privatization. Uganda has a number of policies that are aimed at contributing to sustainable growth and development. In order to avoid distortions and implementation challenges, such national Policies should have a strategic relationship with the overall development vision and aspirations of a country. A brief relationship of Uganda's development agenda and the relevant national policies is given below.

The development agenda of Uganda is summed by its Vision 2040, which is "A Transformed Ugandan Society from a Peasant to a Modern and Prosperous Country within 30 years". According to Vision 2040, the transformation process will be driven by oil and gas, tourism, ICT, abundant labour force, geographical location, trade, water resources, industrialization and agriculture among other sub-sectors that are currently underexploited. Uganda's economic transformation is anchored on industrialization through the application of science, technology and innovation.

The National Industrial Policy (NIP) 2008 stipulates that sub-sector policies key to the socio-economic transformation of the country be developed. In addition, the Ugandan National Trade Policy seeks to develop and nurture private sector competitiveness, and to support the productive sectors of the economy to trade at both domestic and international levels, with the ultimate objective of creating wealth, employment, enhancing social welfare and transforming Uganda from a poor peasant society into a modern and prosperous society. The National Export Strategy (2007), which was developed to support implementation of the National Trade Policy, identifies livestock and livestock products. The promotion of these products for export is seen as a strategy of job creation, income generation and alleviation of poverty in the long term. Leather and leather products is one set of commodities that has a great potential for value addition, employment and income generation.

The National Leather and Leather Products Policy, therefore, has a strong linkage to Vision 2040 through the National Industrial Policy and The National Trade Policy, among other national policies.

## 1.2 Justification for the NLLPP

The leather value chain is bigger than the combined trade of commodities such as meat, coffee, tea, sugar and rubber. It has, however, not received comparable attention in Africa from policy makers. In many African countries including Uganda there are state institutions spearheading the development and marketing of commodities such as coffee, cotton and tea but very few of these countries have similar institutions for leather and leather products. For example, some of the major players in the industry in Africa and Asia such as Ethiopia, Zimbabwe, Kenya and India have state institutions for the industry.

There are a number of gains that the leather sector in Uganda has experienced in the last few years. These gains need to be consolidated and enhanced. However, there are also a number of constraints that need to be tackled for the leather sector to develop further. These dynamics are mentioned below.

Approximately 95 percent of the Ugandan processed hides and skins are exported as partly processed leather (wet blue). Prior to 2007, 90 percent of these hides and skins were being exported in raw state. For the period 2008-2012 Uganda was estimated to have produced on average 1.6 million hides and 4.7 million skins per annum, equivalent to 25,600 metric tonnes and 9,400 metric tonnes, respectively. Over 40% of these hides and skins were exported in their raw form, which was dry or wet-salted, with associated lost revenue due to little value added equivalent to US\$ 249.7 million per annum. The export of raw hides/skins, wet blue and crust entails forgone opportunities of jobs, foreign currency earnings and other indirect benefits, which could have been attained in Uganda. The value addition margins increase significantly as we move up the leather value chain. The losses which are incurred due to lack of value addition are illustrated in the Table 1 below.

**Table 1: Value Addition Potential and Estimated Losses per annum**

<b>Stage of Processing</b>	<b>Potential Earnings (USD)</b>	<b>Current Earnings (USD)</b>	<b>Estimated Loss (USD)</b>	<b>Value Added Factor</b>
Raw Hides/Skins	22,829,111			1
Wet Blue	45,658,222	41,530,085	4,128,137	2 times
Crust	68,487,333	684,873	67,802,460	3 times
Finished Leather	79,901,889	799,019	79,102,870	4 times
Finished Product	273,949,332	2,739,493	271,209,839	12 times
<b>Cumulative Loss</b>			<b>271,209,839</b>	

**Source: COMESA LLPI**

In order to stimulate value addition, Government has over the years reviewed the export taxation regime and currently a specific export tax of USD\$0.20 per kg of raw hides and skins exported is levied. The export tax on raw hides and skins has contributed to an increase of export earnings from USD 25 million in 2001 to USD 64 million in 2013.

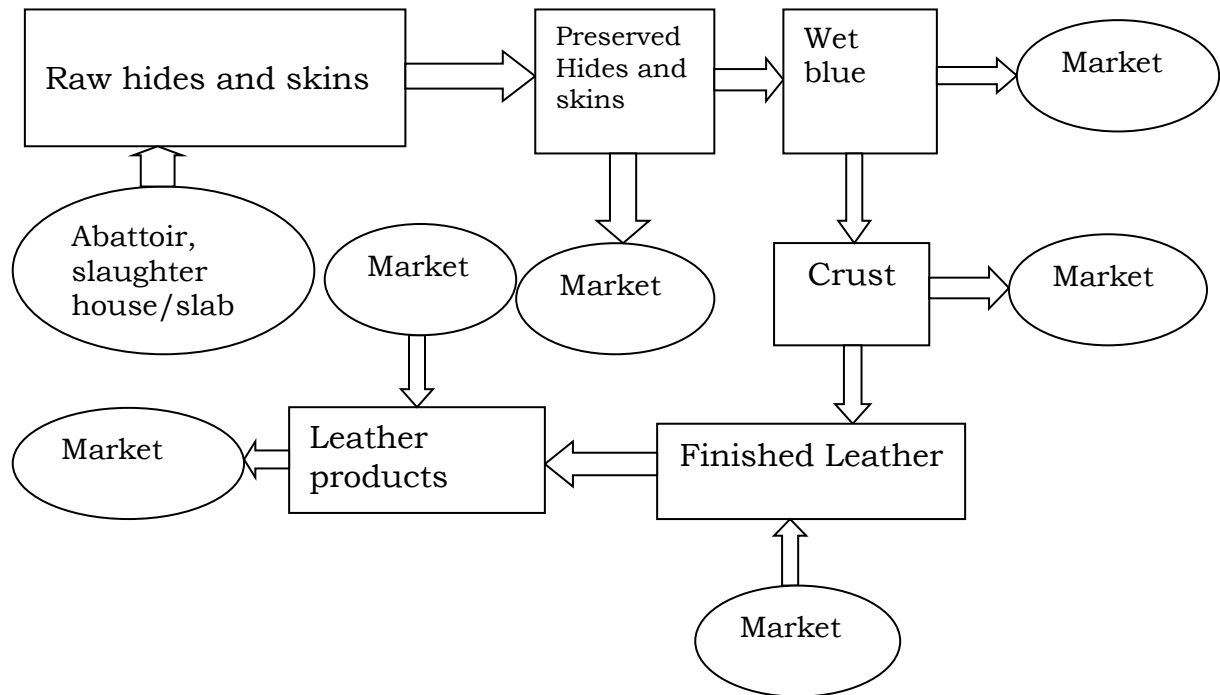
The market for finished leather products is growing astronomically in Uganda, as reflected by a sharp increase in imports over the past ten years. Footwear imports grew from USD 6 million in 2001 to USD 35.5 million in 2013. Although the number of SMEs producing finished products is rapidly expanding their capacity cannot meet the local demand for leather products, hence creating an opportunity for expansion. The sector is not able to produce finished leather which forces the SMEs to depend on imported leather. Another feature of the sub sector is the use of poor quality leather. The poor quality of the hides and skins negatively affect the quality of the leather and leather products produced and subsequently, the competitiveness of the sector. The quality of hides and skins being produced in Uganda is deteriorating due to multiple factors that occur during animal rearing and/or after the slaughtering process. Lack of suitable tools, equipment and machinery are also major causes of poor quality leather. These constraints raise the cost of production, undermine product quality and render the sector less competitive. Government needs to institute measures, both tariff and non-tariff, which will attract investment in the sector and enable production of good quality hides and skins and finished leather.

Lack or inadequate horizontal and vertical collaboration among value chain agents is undermining the optimization of the available resources. Core value chain agents such as tanners and finished product manufacturers have not optimally benefitted from peripheral stakeholders like academia, quality and standards development organizations, financial institutions and development partners which undermine growth of the sector. Government needs to devise mechanisms for collaboration between all value chain agents to maximize overall gains from the sector.

Observing the potential that the leather sector has, and noting the gaps that exist for the sector performance to improve, it is imperative that Uganda should develop a National leather and leather products policy that will guide and coordinate the sector in value addition and production of finished leather and leather products. This in turn will generate wealth and enhance employment creation, thus contributing to the achievement of Vision 2040.

### **1.3 Leather Value Chain**

The leather value chain includes the rearing of animals to ensure that quantity and quality of hides and skins is prioritized right from the farms. Value addition to the hides and skins starts with flaying where the hides and skins are separated from the carcasses. The raw hides and skins are then preserved by drying or wet salting for tanneries to process. There are a series of chemical and mechanical processes which the raw hides and skins go through in tanneries to get to semi-processed leather (wet blue). Wet blue is further processed into leather crust and finally into finished leather. Finished leather is mainly used for the manufacture of footwear, bags, upholstery (for furniture), belts and wallets. Other products include accessories used in textile and basketry industries.



**Fig 1: Diagram showing the Uganda leather value chain**  
**Source: MTIC**

From the diagram above, it is noted that raw hides and skins, wet blue and semi-finished leather (crust) are exportable intermediate products in addition to the finished products. However, there is very little production of finished leather and the little that is produced is not to the standard required for export. Uganda, therefore, is a net importer of finished leather. Finished leather products are both exported out of, and imported into the country with the import volume exceeding export. Most of the finished products are footwear and bags which are domestically consumed as well as exported to regional and international markets.

## **2 SITUATION ANALYSIS OF THE INDUSTRY**

### **2.1 Introduction**

The global leather value chain is estimated at USD100 billion, however, raw hides and skins constitute a relatively small and declining proportion of total value of trade globally. At international level between 1993-95, raw hides and skins constituted 12 percent of the total value of exports of hides,



skins, leather and footwear. By 2009 this proportion had dropped to eight percent.

In Africa the decreasing trend of trade in raw hides and skins is more apparent than at the global level. Footwear exports in recent years constitute a marked increase in proportion of exports compared with the early 1990s. Partly as a result of the increasing tanning and manufacturing activity in producing countries, export earnings in the sector have shown a strong upward trend over the past decade. Export bans and taxes have been popular means of providing support to tanning and manufacturing in exporting countries. By restricting or prohibiting exports from a country, domestic supply is increased and prices in that country are reduced. The increased supply of raw material encourages activity and growth in the tanning and leather manufacturing industries. However, the reduced prices weaken returns to farmers and discourage collection of raw material. This calls for deliberate policies to balance availability of the raw materials and returns to the farmers.

The COMESA Region's livestock is approximately 51% and 11% of the African and the World livestock herd, respectively. However, its contribution to the global production and trade of leather, leather footwear and products is very weak, at less than 3% (85 million pairs of footwear per annum). It is estimated that the region is losing approximately USD 4.5 billion annually, through the export of raw hides and skins, instead of exporting finished products. The situation is set to remain as is, if national governments, the private sector and academia do not work together to improve productivity, innovation and investment.

Uganda's leather industry is still in its infancy stage of development characterized by poor production equipment and limited value addition. The exported hides and skins from Uganda are usually in their raw and semi-processed forms. Over 90% of leather products are imported from outside Africa, despite the huge potential in the Common Market for Eastern and Southern African region. Of the 25 million pairs of shoes annually demanded in Uganda, one million are produced locally and the 24 million are imported mainly from Europe, North America and Asia. Out of the total import of shoes, only about 500,000 pairs are leather shoes. Despite this potential, most of the finished leather products are imported into the country from Asia, European Union and North America.

As of 2013, the country had seven small- and medium-sized tanneries (namely, Jambo Tannery, Leather Industry of Uganda, Skyfat Tannery, SWT Tannery, Elgon Tannery, Novelty Tannery Ltd and Hoope Company Ltd) having a total installed capacity of 1,290,000 hides and 4,150,000 skins per annum that are operational at 50-60% capacity utilization. Only the Leather Industries of Uganda processes hides and skins up to finished leather. There are also many cottage tanneries distributed countrywide that mostly do vegetable tanning (tanning using ingredients found in vegetable matter). The following section describes the SWOT analysis.

## **2.2 Strengths**

### **2.2.1 Political will**

The political leadership in Uganda is committed to industrialization, socio-economic transformation, and modernization. The Government's economic policy is geared towards employment generation and poverty alleviation where the leather industry has been identified as a key contributor.

### **2.2.2 Complementary Government programs**

Government has taken on value addition of locally available raw materials as a priority intervention. Programs aimed at improving infrastructure for value addition such as roads, power generation and distribution and establishment of industrial parks are underway to improve the business environment.

### **2.2.3 Availability of naturally good quality leather**

The national livestock population according to the Livestock Census (UBOS 2013) was estimated to comprise 12.8 million cattle, 14 million goats, 3.8 million sheep, 3.6 million pigs and 45.9 million poultry. Uganda's hides and skins are naturally of high quality texture and heavy substance compared to the hides within the region which make them suitable for the production of high quality leather and leather products. About 15 – 20% of Ugandan hides can be used for upholstery. Uganda is the only country in East Africa with larger quantities of hides that are suitable for upholstery, according to a leather sector review study done by UNIDO in 2002.

### **2.2.4 Availability of trainable workforce**

Following the introduction of the Universal Primary Education (UPE) and Universal Secondary Education (USE), school enrolment has increased. The above state of affairs offers an opportunity for a robust human resources base for trainable labour. In addition Uganda has abundant skilled and unskilled labour that is competitive for production with labour rates per hour being US \$ 0.6 compared to \$1.1 for Kenya, \$0.7 for Zambia and \$2.8 for Zimbabwe. Further, Uganda has the most flexible labour labours in Africa and ranks highest in Africa.

### **2.2.5 Availability of unique sources of leather**

Fish, crocodile and ostrich farming in Uganda is gaining popularity for the provision of the valuable skins and this provides great potential for investment. Leather products from these sources fetch a premium price in niche markets.

## **2.3 Weaknesses**

### **2.3.1 Smuggling and undeveloped marketing channels of hides and skins**

The supply of raw hides and skins to tanneries is not sufficient to enhance economies of scale. This is not only because of the low daily collection rate and poor quality but it is also due to the export of raw hides and skins in pursuit of getting higher premiums from the international market.

### **2.3.2 Low Investments in the Value Chain**

The rural makeshift slaughter slabs and urban slaughter houses lack facilities for efficient flaying and preservation of hides and skins. This leads to damages to the raw material and its downgrading. There is limited capacity for processing to finished leather and leather products. Potential investors in the value segment fear the massive capital required to acquire equipment and are also discouraged by the low rate of return on investment.

Inadequate quality assurance system such as testing laboratories and skilled personnel for grading and testing hinders product quality control and competitiveness of the sector, thus driving domestic consumers to second hand leather and plastic goods that give them value for money. Moreover, export markets that require certification to certain standards are not accessible.

The leather industry is traditionally considered as a heavy polluting industry in the tanning and finishing stages of the chain and yet there is low investment capacity in appropriate waste management systems due to the high cost involved. There are inadequate facilities for waste handling and the tanneries lack qualified personnel for waste management. As a result of this, incidences of environmental pollution have occurred with undesirable social, health and environmental consequences.

### **2.3.3 Limited industry information**

Information is not readily available on prices of raw materials and finished products, production and consumption volumes and production costs. There is scanty information on local and international market opportunities, modern technology and required quality standards. The information gap about the industry is a limitation especially in attracting investment and market access, both within the RECs and Africa. In addition, there is lack of consumer awareness for genuine leather products.

### **2.3.4 Limited institutional collaboration**

The development of this industry is a responsibility of several stakeholders. However, there is limited collaboration between institutions due to the absence of a well-established mechanism. The inadequate institutional coordination between the key government and private sector institutions has hindered the leather sector development.

### **2.3.5 Lack of Training, Research and Development**

Training institutions and productivity centers that would cater for training and quality issues in the sub-sector are inadequate and not financially supported. The industry lacks specialized skills for processing, production and marketing. There is limited capacity in research and development, design and innovation in new products.

### **2.3.6 High cost of doing business**

The high cost of utilities and transportation increase the cost of doing business. In addition, the high interest rates from the commercial banks aggravate the situation making the industry less competitive and unattractive to investors both in the region and internationally.

### **2.3.7 Lack of clustering and industrial linkages**

The disjointed nature of processors and manufacturers does not allow them to enjoy economies of scale especially for large orders such as African Growth Opportunity Act (AGOA). The absence of industrial linkages to supply relevant materials, components and accessories like machinery spare parts, shoe lasts, soles and laces among others, reduce the competitiveness of the industry.

## **2.4 Opportunities**

### **2.4.1 Market potential**

Intra and inter-regional trade arrangements such as East African Common Market, Common Market for Eastern and Southern Africa (one billion square feet of leather, 365 million pairs of footwear demanded creating a deficit of 280 million pairs per year), African Growth Opportunity Act, African Caribbean and Pacific Agreement, Export all But Arms (EPA), European Union (EU) and Cotonou Agreement, provide potential regional and international markets for finished leather and leather products.

Foreign and local demand for leather and leather products shows an upward trend. The total footwear market requirement of the country is estimated at 25 million pairs per year of which USD40 million worth is imported.

There are currently over 16,000 schools and colleges in Uganda, let alone sports clubs which could form a formidable market demand for ball manufacturing.

#### **2.4.2 Leather processing by-products**

Leather processing offers the possibility of using by-products to make animal feeds, natural fertilizer, ginning accessories, leather boards and others.

### **2.5 Threats**

#### **2.5.1 Competition from synthetic and imported leather products**

Competition from imported products that include second hand and synthetic goods especially footwear undermines the market for local producers. Prices of such products erode fast due to product duplication and proliferation. The Ugandan consumers look out for product substitutes that are cheaper than genuine leather products and this reduces the market share of genuine leather goods.

#### **2.5.2 Protectionism of raw hides and skins importing countries**

Protectionist policies in foreign markets that provide subsidies to raw hides and skins importers do not favour fair competition in the local market. This leads to a competitive disadvantage to the local processors who have to pay dearly for the raw hides and skin or risk inadequate supplies of the raw hides and skins.

#### **2.5.3 Changing consumer taste**

The ever changing consumer taste leads to a short product life cycle and a need for continuous investment in technology upgrade by enterprises. These investments enable achievement of customer needs but do not favour competitiveness as cost of production becomes higher.

#### **2.5.4 Adverse climate change**

There are increasing challenges to agriculture arising from adverse climate change leading to low production and productivity of livestock, hence, low supply of poor quality of hides and skins.

### **3 GUIDING PRINCIPLES**

The following are the guiding principles used in the development and implementation of the Policy:

- (i) Maximizing value addition before export
- (ii) Minimizing, and where possible elimination, of the risk of harmful effects of leather processing on the environment
- (iii) Production of good quality products across the value chain to penetrate international niche markets
- (iv) Integration of social concerns such as gender, HIV/AIDS
- (v) Promotion of Private Sector Participation in the sector
- (vi) Promotion of the 'Buy Uganda Build Uganda' principle

## **4 VISION, MISSION AND OBJECTIVES**

### **4.1 Policy Vision**

The vision of the NLP is **“A sustainable and competitive leather industry, a significant contributor to national development”**.

### **4.2 Mission**

The mission statement for the NLP is **“To transform the leather industry into one that is dynamic and competitive through maximisation of value addition and application of cleaner technologies”**.

### **4.3 Objectives**

The general objective of the NLP is to maximize value addition and improve quality of products along the value chain while ensuring competitiveness and sustainability within the sub-sector.

The specific objectives include the following:

- (i) To promote the production of quality finished leather and leather products for local and export markets
- (ii) To promote more efficient, environmentally friendly production techniques along the value chain
- (iii) To create an enabling business environment

## **5 POLICY INTERVENTIONS**

### **5.1 To promote the production of quality finished leather and leather products**

<b>Globally competitive leather and leather products originating from Uganda</b>
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To promote the production of finished leather and leather products, the following interventions shall be implemented:

- (i) Promote the establishment of appropriate production, preservation, processing and marketing infrastructure (leather industrial parks and clusters, leather products incubation centers, tanneries, abattoirs, slaughter slabs, and stores)
- (ii) Promote the application of Total Quality Management practices along the value chain to ensure production of high quality products and compliance to standards at all points of the value chain.

- (iii) Support private sector in strengthening their technological capacities to develop more innovative leather and leather products from different sources of hides, skins and other related raw materials
- (iv) Promote local purchase and use of leather footwear, belts, balls and holsters by national institutions such as army, police, prisons and schools as a way of promoting local consumption of locally produced leather products
- (v) Promote training of skilled and semi-skilled leather technicians in tertiary and lower level training institutions
- (vi) Encourage local MSMEs and foreign investments in leather value addition ventures
- (vii) Promote the exposure of local producers through study tours, national and international shows and exhibitions of leather and leather products
- (viii) Support the processors to produce crust and finished leather
- (ix) Manage tariff on the export of wet blue and crust to encourage production of finished leather and finished goods
- (x) Develop, review and enforce the relevant laws, regulations, guidelines, standards and codes of practice pertaining to leather and leather products quality
- (xi) Establish and strengthen national, and regional sector institutions and their linkages that will cater for R&D, testing training and quality

## **5.2 To promote more efficient and environmentally friendly production techniques**

### **More efficient, environmentally friendly production practices implemented**

The following shall be implemented:

- (i) Ensure that best practices in environmental management are adopted and implemented such as implementation of environmental management systems (EMS) and adoption of cleaner technologies
- (ii) Sensitize industry players in the relevant environment laws and regulations.
- (iii) Promote establishment of common effluent treatment plants to encourage industrial clustering that provides benefits from economies of scale in waste management.
- (iv) Train and equip managers and technicians in appropriate waste management techniques and skills
- (v) Promote recycling and re-use of waste products into new products
- (vi) Develop, review and enforce the relevant laws, regulations, guidelines, standards and codes of practice pertaining to environmental protection and compliance

### **5.3 To promote institutions and mechanisms for conducive business environment**

<b>A conducive and competitive business environment</b>
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In order to create an enabling business environment that encourages investment in the leather and leather products sector, the following shall be adopted:

- (i) Establish a public private partnership institution to coordinate, harmonize and mobilize business actors within the sub-sector
- (ii) Promote clustering of companies for sufficient supply of raw materials, new technologies and market access
- (iii) Establish a business information system to assist enterprises to improve market access and industry best practices
- (iv) Facilitate access to affordable financial credit for investment in the sub sector
- (v) Create a technology up-gradation fund which private sector will access to up-grade their technology and equipment
- (vi) Provide incentives to stakeholders engaged in processing hides, skin, leather and leather products to

## **6 IMPLEMENTATION ARRANGEMENT**

The Ministry of Trade, Industry and Co-operatives shall lead the implementation of the National Leather Policy while collaborating with other Ministries that have a direct role in its implementation. These include the Ministries of Finance, Planning and Economic Development; Agriculture, Animal Industry and Fisheries; Gender, Labour and Social Development; Education and Sports; Energy and Mineral Development; Water and Environment; and Local Government; as well as other Government Agencies, and the Private Sector. The Ministry of Trade, Industry and Co-operatives will lead in mobilization of resources for implementation of the policy and spearhead and coordinate implementation of all aspects of the policy.

Monitoring the implementation and impact of policy measures shall be carried out on a regular basis using appropriate sets of indicators and will involve full participation of the private sector and other key partners in the leather sector.



## **7 CONCLUSION**

Government will continue to concentrate on creating an enabling policy environment to the private sector to lead economic growth. The National Leather Policy analyses the strengths, weaknesses, opportunities and threats to the sector with the view of turning the opportunities into strength and managing the threats. The Policy actions are geared at three main areas of value addition and productivity; management of waste to conserve the environment and health; and provision of conducive business environment. The wide consultative process that has been followed in developing this Policy has helped to identify, by consensus, the priority areas for the leather sector development. Strategic actions to help achieve these priorities have also been arrived at through a consultative mechanism.