



EAST AFRICAN COMMUNITY



The East African Community Leather and Leather Products Strategy and Implementation Roadmap 2020 - 2030

Vision: “An integrated and globally competitive leather and leather products industry”



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**The East African Community Leather and Leather
Products Strategy and Implementation Roadmap 2020 - 2030**

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List of Acronyms and Abbreviations

AI	Artificial Insemination
CAGR	Compounded Annual Growth Rate
CETP	Common Effluent Treatment Plant
CMP	Common Market Protocol
COMESA	Common Market for East and Southern Africa
DFI	Development Finance Institutions
EAC	East Africa Community
EPZ	Economic Processing Zone
FDDI	Footwear Design and Development Institute
GCF	Green Climate Fund
GDP	Gross Domestic Product
IDD	Industrial Development Department
ISO	International Standardization Organization
IPA	Investment Promotion Agency
LLPI	Leather and Leather Products Institute
LWG	Leather Working Group
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
MDAs	Ministries, Departments and Agencies
NEMA	National Environment Management Authority
PPD	Public Private Dialogue
PPP	Public Private Partnership
R&D	Research and Development
SADC	Southern Africa Development Community
SINOBU	China Burundi Tannery
SMEs	Small and Medium Enterprises
SQFT	Square Feet
TPCSI	The Training and Production Center for Shoe Production Industry
TR	Tannery Run
UNIDO	United Nations Industrial Development Organization
USD	United States Dollar
VAT	Value Added Tax
VC	Value Chain
WHT	Withholding Tax

Glossary

Branding refers to the common practice of marking an area of hide with a hot iron, as a means to identify livestock.

Curing refers to the process (physical and chemical) of arresting or averting microbial degradation of the hide or skin to allow for the lapse of the time between slaughter and processing by the tanner.

Export levy refers to a levy on semi-processed leather (wet-blue), raw hides and skins (H&S), in place since 2003/04.

Flaying refers to the removal of hide or skin from cattle, goats and sheep.

Hide means the outer covering of a mature or fully grown animal (cattle in the case of this strategy).

H&S grading refers to an activity that puts hides into categories according to quality, thereby facilitating pricing.

Leather is hide or skin, with or without hair, which still retains its original fibrous structure more or less intact, and which has been semi-tanned so as to be imputrescible even after exposure to water.

Leather products are items or articles whose components or parts consist of leather; this includes footwear.

Leather industry includes H&S, tanning industries, and the footwear and leather products industry sub-sectors.

Leather value chain refers to stages/components of the leather industry from inputs into livestock ranches, to farmers, butchers/abattoirs, collectors/preservers, tanners/exporters, leather goods manufacturers and wholesalers/traders.

Leather splits refer to the bottom layer that is separated (split) for a hide or skin in order to obtain a more even thickness for processing and a more uniform final leather. Splits are of irregular shape and thickness.

Off-take rate refers to the proportion of H&S removed by sale, consumption, disposal or sale over time.

Skin means the outer covering of a goat or sheep which has been flayed.

Slaughter defects refer to cuts or holes and gouges to the H&S, which make them unfit for subsequent use further up the value chain.

TR stands for Tannery Run (TR). Leather is a beautiful natural product, with a unique shape, colour, texture, natural scars and markings, and different finishes. These characteristics are graded at tanneries into different grades, all with different price points. Grades include A, B, C, TR, and Reject. Or 1st, 2nd, 3rd, TR and Rejects

Vegetable-tanned leather (veg) is a supple brown leather which was tanned through a process using tannins and other ingredients found in different vegetable matter, such as tree bark prepared in bark mills, wood, leaves, fruits and roots.

Wet-blue is a common tanning procedure involving chromium which leaves the tanned leather a pale blue colour.

Foreword



The 19th Ordinary Summit of the East African Community (EAC) Heads of State on 23rd February 2018 in Kampala, Uganda, decided, amongst others, to prioritize the development of a competitive domestic leather industry for the EAC. The Summit directed the Secretariat to put in place mechanisms for promotion of leather manufacturing in the region in order to stop impor-

tation of used shoes and other leather products from outside the region. The development of the “**EAC Leather and Leather Products Strategy and Implementation Roadmap (2020-2030)**” is a timely response to this directive and provides the framework for the rapid development and transformation of the leather value chain through streamlined, coherent and coordinated region-wide approaches that complements national efforts in the EAC Partner States. The ultimate goal is to transform the sector from not only producing and trading in raw materials, but to finished value-added products in order to retain value and stimulate sector transformation for developmental impacts in employment, income, poverty reduction, industrial and trade integration in intra- and extra-EAC region, in line with the EAC Industrialization Policy and Strategy (2012-2032).

The strategy affirms that EAC Partner States, comprising the Governments of Burundi, Kenya, Tanzania, Rwanda, Uganda, South Sudan and United Republic of Tanzania, have comparative advantage in resource endowment for the development of a globally competitive leather and leather products industry, comprising 3 per cent of the world total bovine

herd, 5 percent of the goat herd and 2 percent of the sheep herd. Despite this potential, value addition in the livestock sector has been minimal, and most of the exports have been in the form of unprocessed, raw hides and skins and wet blue. Between 80 to 90 per cent of the wet blue leather is exported; only 10 per cent remains for processing to finished leather which caters for footwear and artisanal shoe products makers in the region.

The economic contribution of the regional leather industry to GDP has been modest and constrained with a number of challenges including weak policy environment which discourages investment in value-added products such as footwear and leather products, continued exportation of critical raw materials, weak institutional capacity for quality and standards enforcement; depressed local market demand due to dumping of imported used leather and leather products often priced below local production costs and synthetic/plastic shoes among others. To address these challenges, regional cooperation efforts are needed to create an effective policy coordination framework geared towards eliminating constraints to growth and value chain upgrading at national and regional level.

The EAC Leather and Leather Products Strategy and Implementation Roadmap (2020-2030), is therefore, intended to address the challenges in the industry and to serve as a road map to transform and develop the EAC leather and leather products value chain in order to enhance the supply of high-quality hides and skins, improve value addition and growth in domestic consumption and export of leather products. The strategy sets targets for the development of the sector in the EAC region as follows by 2030: (i) improve capture and retention of the intrinsic value of

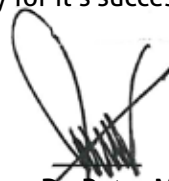
the sector from the current 15 percent to more than 50 percent; (ii) increased intra-EAC trade in leather and leather products from the current 1.5 percent to 10 percent; (iii) increased contribution to EAC GDP from the current 0.28 percent to 4-5 percent; (iv) growth of exports to the global market from compounded annual growth rate (CAGR) of 22.4 percent (or USD131.2 million to USD1 billion); (v) 500,000 new employment opportunities created; (vi) 2,000 small and medium enterprise entrepreneurs trained; and (vii) 10 footwear and leather products industrial clusters established in each Partner State per annum.

To achieve these targets, key strategic activities have been prioritized which seek to consolidate the gains made in the sector including (i) improving and modernizing livestock husbandry practices for sustainable supply of renewable resource for downstream industries, (ii) modernizing processing or manufacturing capacity for footwear and leather goods production for domestic and export markets; (iii) improving quality infrastructure to ensure high quality and quantity raw materials for value addition; (iv) facilitating increased investment in integrated tannery; (v) management of tannery wastes and by-products, (vi) enhancing productivity of small-scale producers (SMEs) of footwear manufacturers and other leather goods producers to raise their export capabilities, and contribute to employment and poverty reduction, (vii) developing skills, technology, and research and development (R&D) capabilities in order to improve competitiveness and innovation in the sector, and (viii) strengthening governance, policy, regulatory systems, institutional coordination mechanism and supporting services for a conducive business environment.

To supplement the Strategy and Implementation Roadmap and to improve quality of products in the value chain the EAC in collaboration with the Physikalisch-Technische Bundesanstalt (PTB) have developed the ***East African Community Regional Action Plan for Quality Infrastructure Development of the Leather Industry (EACRAPQIDLI): 2021-2023***. The strategic interventions outlined to improve quality infrastructure include: raising awareness of the importance of quality; implementing good manufacturing practices and improving testing capacities and availability of testing service.

The successful implementation of the strategy requires concerted efforts of all EAC Partner States including national ministries of industry, agriculture, trade and finance as well as, national academic and research institutions, leather industry players, private sector, non-state actors (NSAs) and international development partners. At national level, agencies including leather development boards, councils, associations (traders, manufacturers, butchers and tanners) working through the national and regional leather sector platforms will take lead in coordination and steering.

In view of the importance of the leather industry to the people of East Africa and its contribution to industrial development, I urge all the stakeholders to take appropriate measures as outlined in the strategy for its successful implementation.



Hon. Dr. Peter Mathuki
Secretary General, East African Community

Acknowledgment



This publication of the EAC Leather and Leather Products Strategy and Implementation Roadmap (2020-2030) happens at a time when the Community is part of a number of initiatives geared towards expanding the market opportunities for the industrial sector including the COMESA-EAC-SADC Tripartite Free Trade Area, bilateral engagements with the United States of

America (USA), United Kingdom (UK) among others and embracing the African Continental Free Trade Areas (AfCFTA). The AfCFTA is expected to catalyse Africa's industrial transformation while boosting trade and investment in intermediate goods in sectors with extensive backward and forward linkages such as the leather sector, strengthening the value chain between regional economic communities (RECs) in line with the Africa Union (AU) Agenda 2063 for "The Africa We Want". The EAC is also part of the worldwide integration and use of digital innovations in supporting the acceleration of economic development such as e-commerce and the fourth industrial revolution.

Internally, the EAC has made progress in reducing transaction costs of doing business, through improvements in customs procedures, lowering of trade taxes, harmonization of standards, facilitation of infrastructure development investment to lower the cost of doing business within the region thereby enhancing industrial competitiveness. The Community is currently repurposing the Common External Tariff (CET) to support the industrial sector and supporting public-private sector engagements platforms as a way to show-case and provide investment information for potential business partnerships. The implementation of this strategy therefore comes at an opportune time to accelerate the regional leather sector development as well as contribute to the regional industrial development.

In recognition of the important role played by the leather sector in the region, this strategy has been prepared in close consultation and support of various national, regional and international stakeholders. It underwent a consultative process that took into account the views of stakeholders and ongoing developments in the sector in the region. In this regard, the Secretariat, wishes to acknowledge and thank the participation, dedication and commitment by the EAC Partner States in the development of this

strategy. Key national stakeholders were drawn from national ministries of industry, agriculture, trade, finance, planning and East African Community Affairs; national investment promotion agencies, academia, leather manufacturers' and their associations, and international Development Partners.

The invaluable technical and financial support provided by Trade Mark East Africa (TMEA) is highly acknowledged and appreciated. Recognition is also given to the support by GIZ Programme "Support to East African Market-Driven and People-Centered Integration (SEAMPEC)" whose Regional Industrial Value Addition (RIVA) Project, implemented by GFA Consulting Group in supporting the publication of the strategy. Last but not least, the EAC Secretariat recognizes the tireless efforts of the EAC staff from the Productive Sectors on the successful stewardship of the development of the strategy.

It is envisaged that at the end of the implementation of the strategy the leather industry will be able to retain value and supply quality products that meet local and international market demand, provide more employment opportunities and contribute to regional GDP through reduced imports and increased exports.

In conclusion, I wish to emphasize that the Secretariat will ensure a coordinated and collaborative approach by all the relevant structures of the EAC Secretariat (Agriculture, Industry, Customs and Trade), Partner States' national technical ministries and institutions, leather processing associations as well as development partners to successfully implement this strategy. This coordination will seek to synergize and harness existing national, regional and international initiatives towards strengthening value addition in the regional leather sector. The EAC Secretariat will take the lead responsibility in mobilizing and optimally deploying the necessary resources including personnel for the successful implementation of the strategy, while the Partner States will drive the implementation in their respective countries through their national budgets.

A handwritten signature in blue ink, likely belonging to Hon. Christopher Bazivamo. The signature is stylized and fluid, with a long horizontal line extending to the right.

Hon. Christopher Bazivamo
Deputy Secretary General
(Productive and Social Sectors)
East African Community



Executive Summary

This document is a response to the 19th Summit of EAC Heads of State, held in 2018, concerning the promotion of the cotton, textile, apparel and leather industries in the region, with a view to making the region more competitive and creating jobs, *'decided to prioritize the development of a competitive domestic textile and leather sectors to provide affordable, new and quality options of clothing and leather products to EAC citizens'*. The Summit further directed the Council to *'implement this decision and put in place a mechanism that supports textile and leather manufacturing in EAC'*.

The Leather and Leather Products Strategy, is premised on collective commitment and strategic cooperation among Partner States, as well as between the public and private sector, to collectively address governance issues, regulatory, market and information challenges which reduce incentives for private investment along the leather and leather products value chain. Implementing the Strategy holds the key to averting the risks associated with a mono-product driven export industry, with a focus on retaining 85 percent of the value that is presently leaked through the export of wet blue.

The EAC region, a good resource base for the production of hides and skins, accounting for 3 percent of the world total bovine herd, 2 percent of the sheep herd and 5 percent of the goat herd. In 2017, the EAC Region had 188.1 million livestock (cattle, sheep and goats). Close to 75 percent of the cattle population is found in Tanzania and Kenya.

The off-take rate in the region is promising and estimated at approximately 20 percent (for cattle, sheep and goats, combined). This off-take rate is reasonably high, compared with COMESA and SADC (at about 13.5 percent), thanks to the high consumption of meat in the Region. The demand for meat in the EAC has been on the rise (up by 15 percent over the period 2012 to 2016), and is therefore, a good growth indicator for the hides and skins/leather industry.

Partner States have, accordingly, instituted comprehensive Leather Value Chain Policies and Strategies, to help grow competitive and coordinated leather

industries, built on modern technology and global practices that are responsive to the world market. The Policies and Strategies are post 2015, with mechanistic inputs and outputs, aimed at promoting export diversification, curbing value leakage, and also reinvigorating the potential of the leather industry (in creating jobs, income generation and alleviation of poverty).

However, the economic importance of the leather industry, has been modest and on the decline, from a paltry regional average of 0.6 percent (share of Agriculture's GDP) in 2013, to 0.28 percent in 2017. This negative trend does not appear to be consistent with the underlying potential in the sector, based on the resource abundance in terms of livestock population. The decline is attributed to several factors, key among them include weak policy environment which discourages investment in value added products such as footwear & leather products, continued export of critical raw materials (such as hides & skins and wet blue), and weak institutional arrangement to enforce quality and standards in the value chain.

Presently, the EAC region processes leather up to wet blue stage with minimal transformation to finished leather. Between 80 and 90 percent of the wet blue leather is exported; only 10 percent remains for processing to finished-leather, which caters for footwear and other leather products. The leather goods manufacturing industry is catering for the needs of items such as handbags, belts, seat covers, etc., but is heavily reliant on imported finished leather.

On the international market, the price of finished leather costs approximately US\$5 per square feet (ft²). Wet blue is sold at US\$1.5 per ft², this suggests that the EAC, which exports mainly wet blue, loses up to US\$3.5 per ft². Based on this trend, and taking a projection of five years (2014 – 2018), the EAC has, in-effect, lost opportunity close to US\$3.2 billion. Current exports of wet blue stand US\$ 131.2 million. In terms of finished leather shoes, a high-quality leather shoe on the domestic market costs about US\$17. Ultimately, for every dollar of raw leather exported, a minimum of US\$4.8 is lost due to lack of value addition. If the exported wet blue was convert-

ed into finished leather shoes, the EAC would have generated a minimum of US\$8.7 billion over the last five years (2014-2018).

Intra-regional trade in leather products (footwear) is, nonetheless promising (growing at an average annual rate of 1.5 percent, since 2013), with a huge potential to substitute imports from Asia and Europe, if complementary policies (a gradual phase-out of second hand leather shoes, and promoting "Buy Made in East Africa" campaigns) and technological and skills capability are reinforced.

A major constraint to the growth of the leather footwear industry, relates to the constrained market demand due to the high presence of imported used footwear, as well as synthetic/plastic shoes which are priced way below the production costs of local producers. The potential for footwear manufacturing for both domestic and export markets is enormous, for instance, the Region currently has a monthly demand of approximately 600,000 pairs of industrial shoes (security, safety, industry), however, current production is only about 60,000 shoes per month. This presents an opportunity to set up 60 shoe factories in the region to meet the regional demand of 600,000 pair of shoes per month.

Some key deliverables outlined in the strategy include: establishment of a footwear technology and Design Centre to improve skills and design capability; establishment of national leather industry Apex coordinating agencies; training of 500,000 footwear entrepreneurs, the establishment of 30 MODEL modern slaughter houses and 30 MODEL hides and skins collection centres and 60 full integrated/vertically integrated tanneries with capacity to produce footwear.

Coordination of the implementation will be facilitated mainly by the EAC Secretariat, through a leather & footwear unit to be established. At national level, agencies (leather development boards/councils/platforms) working through the National Leather Sector Platform will take lead in coordination.



1 INTRODUCTION

The 19th Summit of EAC Heads of State, held in 2018, concerned the promotion of the cotton, textile, apparel and leather industries in the region, with a view to making the region more competitive and creating jobs, *'decided to prioritize the development of a competitive domestic textile and leather sectors to provide affordable, new and quality options of clothing and leather products to EAC citizens'*. The Summit further directed the Council to *'implement this decision and put in place a mechanism that supports textile and leather manufacturing in EAC'*.

The EAC region is endowed with a sizeable stock of cattle, goats and sheep, for the development of a globally competitive leather and leather products industry. The region has a good resource base for the production of hides and skins, accounting for 3 percent of the world total bovine herd, 5 percent of the goat herd and 2 percent of the sheep herd. In terms of cattle: Tanzania has a total of 30.5 million cattle; Kenya 17.5 million cattle; Uganda 12.8 million cattle; Rwanda 1.39 million cattle; Burundi 0.801 million cattle and South Sudan 11.7 million.

Regrettably, the region has only succeeded in developing primary processing for hides and skins up to wet blue leather, which is considered a raw product in international trade. Until recently, value addition in the livestock sector has been minimal and most of the exports have been in the form of unprocessed, raw hides and skins. Presently, all the EAC Partner states process leather up to wet blue stage, with only minimal transformation to finished leather. Between 80 to 90 percent of the wet blue leather is exported; only 10 percent remains for processing to finished-leather which caters for footwear and artisanal shoe makers. The leather goods industry is thriving, catering to the needs for items such as handbags, belts, seat covers, etc., but is heavily reliant on imported finished leather.

The developing world dominates production of footwear, contributing close to 50 percent of the world exports in footwear (led by Brazil and Latin America), of which Africa's portion is around 2.5 percent. In East Africa region, only Tanzania and Kenya export limited quantities of footwear. Worldwide, footwear is the most traded product from hides and skins, and trade has been shifting towards value added products, with the proportion of raw hides and skins total value of trade, declining from 12 percent during the period 1993-95, to 8 percent for the period 2009-2011. Footwear alone accounted for 66 percent of the global market value of raw hides and skins, leather and footwear during this period.

Value added products attract higher tariffs in international trade, which puts potential investors at a disadvantage to compete with well-established and more efficient international firms. On the other hand, local market faces stiff competition from Asian imports of cheaper shoes, including shoes made from synthetic materials; and second hand shoes from America and EU countries. Other challenges in the development of leather value chains in the region, include low quality of hides and skins, management of harmful tannery wastes, high post and pre-slaughter hide & skin defects. At technical level, the major constraints are: obsolete technology and lack of leather technologists and product designers.

The above situation calls for strategic cooperation among Partner States, as well as between the public and private sectors, in order to collectively address governance issues, regulatory, market and information challenges, which reduce incentives for private investments in the leather and leather products value chain.



2 SUMMARY OF THE APPROACH TO WORK AND METHODOLOGY EMPLOYED

A largely flexible, participatory, consultative, phased and iterative approach to work and methodology was employed, during the formulation/development of the EAC Leather and Leather Products Strategy. This approach was considered to be the most appropriate to the nature of the tasks at hand, as well as the manner in which the assignment had to be executed.

The participatory and consultative approach, was able to bring on board various categories of actors/stakeholders (Government Institutions, Private Sector Organizations and Development Partners), to explore together, collectively and constructively, the realities and dynamics which characterise the transformation of leather and leather products value chain in the EAC region. The goal was to explore the potential of the industry in the EAC region, and its impact on the social and economic transformation of the Region, including the employment, income, poverty reduction, and industrial and trade linkages across the region.

This necessitated reviewing existing studies/reports and carrying out an in-depth assessment of the status of leather, leather footwear and leather goods (quantitative and qualitative analysis). Additionally, the EAC leather and leather products industry was benchmarked against the best practices of interna-

tional leather and regional industry, with a particular focus on the following countries (China, Vietnam, India and Ethiopia), highlighting the policy choices adopted by such countries, to promote a competitive leather and environmentally friendly industry. Benchmarking was also used as a tool for understanding the position of EAC raw materials, leather and leather products in the global market.

Among other considerations, it was deemed necessary and appropriate to cultivate and inculcate the much-needed spirit and sense of "ownership", constructive stake, and collective responsibility, as well as "buy-in", among the actors/stakeholders in the Partner States, in developing the EAC Leather and Leather Products Strategy.

A number of major cross-cutting techniques were employed concurrently, with particular regard to data/information management; reporting and presentation of outputs throughout the development of the Strategy. These have mainly been a combination of Participatory Analytical Techniques (PAT) of consultation; data/information collection and analysis, as listed below: (i) Comprehensive review of relevant materials/documents (mainly using the Content Analysis technique), (ii) Key Informant Interviews, and (iii) Observation.

3 GLOBAL TRENDS AND DEVELOPMENT IN THE LEATHER INDUSTRY

3.1 An Overview of Global Trends

Leather is ranked among the 25 most traded commodities in the world, with close to US\$200 billion traded per annum. Leather and leather goods, constitute about 0.5 percent of the global market. Close to 70 percent of the global trade in leather products is in finished leather and leather shoes/footwear¹ (Table 1). Of the total annual global leather production (approximately 23 billion ft²), the leather footwear sub-sector uses 65 percent of leather (or 14.9 billion ft²). The remaining 8.1 billion ft² (35 percent of total leather production) goes into the manufacturing of a diversity of other types of leather products.²

Table 1: Global Trade in Leather '000s'USD (2013 – 2017)

Value Chain	Exported Value (Ave for 2013-2017)	Imported Value (Ave for 2013-2017)	Total Trade (Average)	% Share
Raw H&S	30,859,838	5,901,866	36,761,704	20%
Wet blue (tanned/crusted)	6,108,239	6,418,349	12,526,588	7%
Finished Leather	12,682,865	12,165,620	24,848,485	14%
Leather shoes/footwear	53,589,643	54,607,597	108,197,240	59%
Total	103,240,585	79,093,432	182,334,017	

Source: COMTRADE (2018)

In the past 15 years, the leather footwear sub-sector registered the highest growth among the four major products traded in the industry, doubling export volume from \$25.4 billion in 2000 to \$54.6 billion in 2017. Raw hides and skins registered the least amount of growth, receding in growth at an average growth of -8.7 percent per annum, for period 2000 to 2017.

During that period, the composition of world leather exports changed. The share of raw leather in total leather exports fell by 10 percentage points from 28 percent in 2000 to 18 percent in 2017. On the other-hand, the share of finished leather goods increased by more than 11 percentage points, from 33 percent to 44 percent. The share of leather footwear remained more-or-less unchanged at 38 percent. The largest exporter and importer of leather goods is Italy and China, respectively (Figure 1 and 2).

¹ Globally, value addition is strategized towards production of leather footwear and leather goods rather than intermediary products (pickled pelts, wet blue, etc.).

² Furniture (14 percent), automobile seats and interiors (10.2 percent), garments (10 percent), and miscellaneous other leather products (8.0 percent).

Figure 1: Top 10 Importers

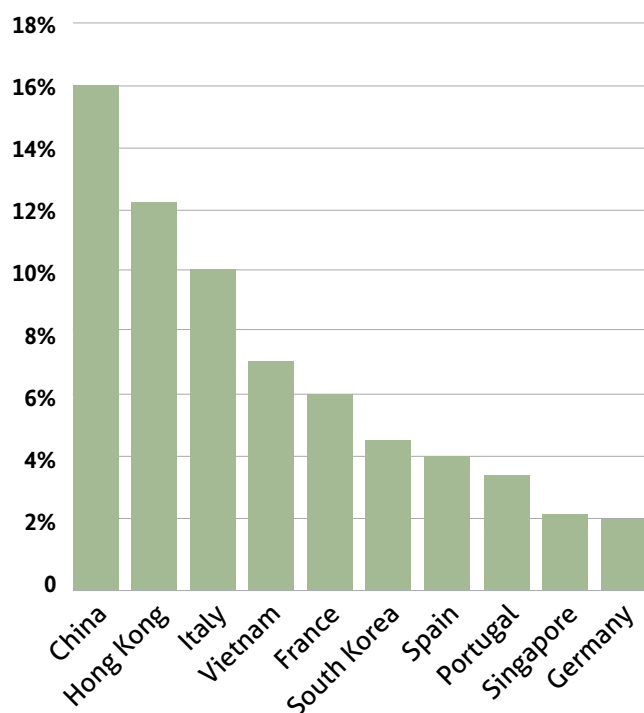
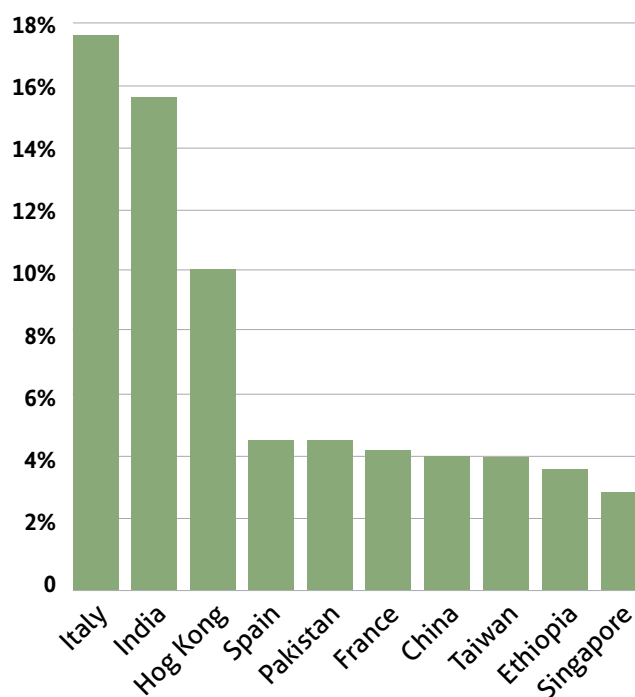


Figure 2: Top 10 Exporters



Source: COMTRADE (2018)

3.2 Selected Major Global Producers and Traders of Leather Products

3.2.1 China

The Chinese leather industry has undergone both qualitative and quantitative transformation and growth, averaging 10 percent per annum, from the 1980s to 2010. During that period, China boasted of huge economies of scale, cheap labour and a ready market to retain and further expand its leather business, to the detriment of all other locations.

However, during the period 2010 to 2016, China's share of the global market in leather and leather goods, fell from 45 percent to 36 percent, while, at the same time, Vietnam (the world's fourth largest importer) gained five percentage points of the market share. China's loss of market share in that period, is due to a change in policy that has significantly reduced investment incentives in leather industries, to focus on high-tech industries (Huawei, Techno, Lenovo, Xiaomi, OnePlus, etc.). This created a strong impetus for China's competitors in Asia, such as Vietnam, to blossom on the global market. China's loss of market share stood at 11 points for footwear, 13 points for leather goods and 11 points for leather clothing and accessories. The countries that benefited the most from this fall are Vietnam and Indonesia for footwear, Italy and Vietnam for leather goods, Italy and India for leather clothing.

Most of the tanneries in China were set up in the 1950s and 1960s. At the time, they were generally small in size with obsolete equipment and relatively low technical level. In the 1980s, some of those tanneries undertook technical upgrading and imported key equipment from abroad, with the help of government lending or foreign investment. Since 2014, however, there has been structural unwinding of the leather business in China, due to increased labour costs and a severe crackdown on industries which pollute the environment. Investment in the leather industry has reduced and several Chinese tanneries have closed, due to pollution and related financial reasons. China's tanning industry, has since receded in growth by 6.23 percent year-on-year basis.

Since 2014, shoe manufacturers have introduced a large percentage of synthetic products, and this strategy has been a success – synthetic products sell well, particularly, among casual buyers, who have difficulty identifying synthetic products from genuine leather. With a diversification to synthetic products in China, the demand for wet blue exports from EAC has dwindled since 2015 (see Section 2.3.2 for more details).

3.2.2 India

In India, the leather industry has undergone a dramatic transformation, from being a mere exporter of raw materials in the 1960s, to being a producer of value-added finished products in the 1990s. Policy initiatives taken by the Government since 1973 have been, to a large extent, instrumental for such a transformation. India has a 2.6 percent share in the global leather trade and this sector ranks eighth in terms of the country's foreign exchange earnings from the industry. The composition of exports has also been changing, with more and more value-added products being exported.

India has an abundance of raw materials for the leather industry, accounting for 21 percent of the cattle and buffalo and 11 percent of the global goat and sheep population. The industry is supported by a new and innovative design development infrastructure. The Government initiative of setting up seven Campuses of Footwear Design & Development Institute (FDDI) in Noida, UP and Chennai, to name a few, ensures reasonable provision of skilled manpower for the industry, and a major boost for the industry's designing realm. A continuous human resource development program is in place to increase the productivity of the industry, which is backed by intensive R&D involving technological up-gradation, which reduces the prototype designing time span. Manufacturing units are economically sized, which solves the space problem and other factors, such as use of high-quality materials (because the industry is mainly export oriented) and long-time experience in the global market, have proven to be some of the major strong points of the industry.

India is currently the world's third-largest footwear consumer after China and the USA. Footwear production in India, is estimated at over 22 billion pairs annually, accounting for close to 10 percent of the total global footwear output per year. In last five years (2013 – 2017), the industry has grown at an impressive rate of 8 percent per annum, exporting over US\$ 2.7 billion worth of the footwear products to the global market in 2017. About 90 percent of the footwear made in India is consumed by the domestic market and the rest is exported. The largest importers from the Indian footwear industry include the USA, UK, Germany, France, Italy, and UAE. Some of the largest footwear manufacturers in India include Bata India Limited, Liberty Shoes Limited, Paragon Group, Relaxo Footwears Limited, Adidas AG, PUMA, Geox S.p.A., Skechers USA, Incorporation, Nike Incorporation, and Under Armour Inc.

The footwear industry employs over 1.1 million workers, making it one of the top employment sources in the country. As a traditionally labour-intensive

sector, the industry is currently transforming towards a more technological and innovative driven sector, with an increasing number of small and large footwear manufacturers, focusing more on developing newer technologies and introducing better products. The government support has been another crucial factor for the growth and development of the footwear industry. In 2017, a US\$ 371 million special package was announced for fuelling the leather and footwear industry. The special package includes the implementation of the central sector scheme 'Indian Footwear, Leather & Accessories Development Program (IFLADP)'. Under the scheme, a further 300,000 workers will be trained and 20-30 percent subsidy/grant will be offered to MSMEs on the capital expenditure for building a plant and buying machinery.

3.2.3 Vietnam

Vietnam's leather industry is competing aggressively and has, for the past decade, grown at a rate of 12 percent to 15 percent per annum. The Vietnamese government plans to invest US\$572 million in the industry over the next three years and is spending US\$37.8 million on tanning facilities. Due to Government support, Vietnam has become the 2nd largest footwear exporter after China, exporting more than 1 billion pairs of shoes and accounting for 7.4 percent of global supply. In 2017, the leather and footwear industry generated US\$17 billion in exports, a 10 percent increase from the previous year. The US remains Vietnam's biggest export market, contributing about 34 percent of total revenues. The Nike brand, for example, maintained a stable number of orders with 70 factories in Vietnam, becoming a driving force for the continued growth in Vietnamese footwear exports to the US market.

In the past decade (2009 – 2018), Vietnam's leather and footwear industry has embraced several policy reforms, from which the EAC can borrow practical lessons, to enhance the competitiveness of the leather and leather products industry/sector. In 2011, Vietnam prioritized the leather and footwear industry, by promulgating a specific/special policy for the industry (Decision 1483/QĐ-TTg), to enable adequate production of a long list of complementary industrial products to the development of the industry including leather, leatherette, shoe sole, tanning chemicals, salted hide, and shoe thread. The priority given to the development of these complementary products/accessories has been positive and instrumental to the nascence of the footwear industry in Vietnam, including Vietnamese branded footwear.

During the same period, Vietnam issued several relevant complementary policies to promote the development of the footwear industry. Notably, the policy

on improving Productivity and Product Quality of leather and footwear products, and other important industrial products. In 2010, a National Program on Productivity and Product Quality Improvement of Vietnamese Enterprises was commissioned. The objectives of the program are: (i) to develop and apply a system of standards, technical regulations, management systems, models, tools for improving productivity and quality; (ii) to develop the requisite human resources to improve the productivity and quality of products and goods; and, (iii) to make clear changes in the productivity and quality of key commodity products and the competitiveness of enterprises, which contribute positively to the national socio-economic development.

3.2.4 African Context

Africa constitutes several elements that are crucial to the development of a strong leather industry. In Africa, the livestock population is growing at about the same pace as the human population.³ With the highest birth rate on the globe, it is estimated that Africa's population will grow from 900 million to 2 billion people by 2050, and so will its livestock population. With labour costs increasing in China and elsewhere, Africa remains one of the most affordable developing regions for low-cost production. Several

African countries, including East Africa, rank leather among the top ten export commodities.

Africa holds about 10 percent of the world's cattle, however, the continent produces less than 5 percent of the global demand for hides. Africa possesses over 20 percent of the world's goats, yet yields only 12 percent of the global skins market. Africa's tanning capacity has fallen to below 7 percent of global capacity. Most developing countries are claiming significant advances in their share of the global leather trade, yet countries in Sub-Saharan Africa have shown modest growth at the best. Although Sub-Saharan Africa possess large and growing livestock populations, the region imports as much as 74 percent of its leather footwear from other developing countries. Footwear production in Africa is estimated at 170 million pairs, but the continent imports 350 million pairs of cheap shoes from Asia each year.

As illustrated in Table 2 below, Africa's share of the global market in hides and skins, leather and leather products are not commensurate with her share of raw materials, nor is it keeping pace with the increasing market share of other developing countries, in relation to developed countries.

Table 2: Selected characteristics of the African Leather Supply Chain (2018)

African % of world total		Remarks
Cattle, sheep and goats	20% of world resources – 14.9% of hides and skins output	The low hides and skins output are owed to poor breeding practices, low recovery rate (collection) of hides and skins, poor handling and storage, and a lack of incentives/formal buying system/structure of hides and skins
Cattle	10% of world resources – 4.5% of hides output	
Export of raw hides and skins	Decrease in export volumes and value, currently, estimated at about 2%	The decrease in export of raw hides and skins is owed to an increase in local tanning capacity and a ban/restriction on export of raw hides
Tanning capacity	On the decline, estimated at less than 7%, from 10% a decade ago	Significant growth in the Far East and Latin America, explains the relative decrease in tanning capacity in Africa, in spite of an actual increase of close to 50%
Footwear (leather) manufacture	Presently, the production/manufacture of leather shoes (footwear manufacture) in Africa constitutes 3% of the world's total production.	Although the volumes are paltry in comparison with the world's total production, footwear manufacture in Africa, registered double digit growth in the period 2002 to 2014 (an average of 12% per annum). Import penetration, however, is still high at 73%, mainly from China

Source: FAO (updated in 2018)

³ South Sudan has 13.2 million heads of cattle; 12 million goats and 10.1 million sheep. This means there is a cow, goat and sheep for every South Sudanese citizen – making it one of the highest livestock per capita ratio in Africa.

The African continent, nonetheless, has a few cases of success. Ethiopia recently emerged as a new world-class player in leather footwear, due to its low cost skilled labour, improvements in the quality of its raw material supply, the stable business climate, and the establishment of new economic zones. Ethiopia is attracting an increasing number of foreign investors, who are using the country as a production site, predominantly to enter the EU and US markets. Today, Ethiopian shoes are becoming increasingly popular in the East Africa region.

Anchor foreigner companies, from Italy, China, UK, India, and Turkey, are operating within the country, contributing to the growing the number of tanneries. Leather and leather product exports have grown substantially from USD 67 million in 2005, to 115.4 million in 2017.

The transformation of Ethiopia's leather industry, into an internationally acclaimed multi-national enterprise, draws several lessons for the EAC to emulate, as illustrated below.

- *Making use of international development partners:* Ethiopia's drive for industrialization was supported by several key development partners, including the United Nations, and the governments of Italy, Germany, the United States, and China.

These partners provided financial assistance and expertise for capacity building, but more importantly, they were instrumental in providing some of the key international contacts which allowed Ethiopia to get a foothold in the global leather products market. Of particular importance, this strategy remained "owned" by the Ethiopian government at all times, and key donor support activities followed specific requests by government officials.

- *Human Resource Development:* The Ethiopian government addressed skill shortages in two ways. Firstly, they launched a cost-sharing program to lower firms' costs for salaries of foreign management and technical experts by exempting their salaries from income tax. UNIDO also sponsored a benchmarking exercise, sending foreign experts to work with seven tanneries and seven shoe factories. Secondly, the government built the Leather Industry Development Institute (LIDI) capacity, through a twinning arrangement with two Indian government institutions: the Central Leather Research Institute, and the Footwear Design and Development Institute. LIDI also organized free and subsidized training for managers and technicians from sector factories, and sponsored short-term training in India. Other measures came from the private sector; for example, in 2014, Brown Shoes provided seven scholarships for LIDI experts.





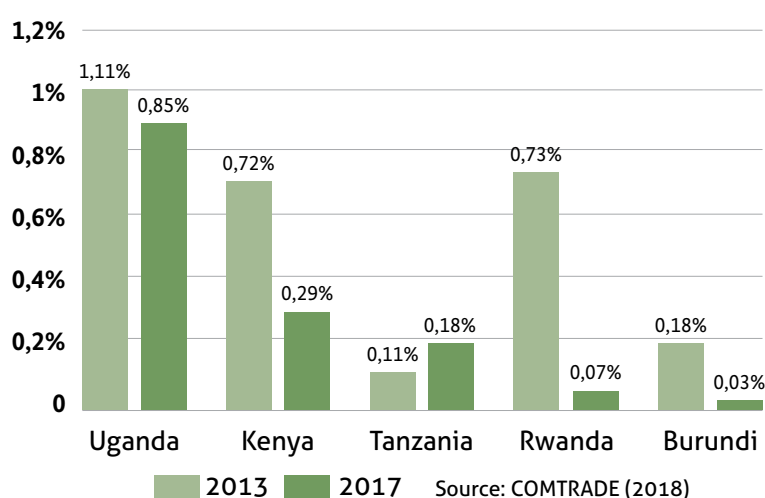
4 STATUS OF THE LEATHER INDUSTRY IN THE EAC REGION

4.1 Economic Importance of the Leather Sector

4.1.1 Contribution to Agricultural GDP

The leather industry is a livestock agro-based sector, with strong backward and forward linkages in terms of locally sourced raw material (raw hides and skins and wet blue). The only raw materials that are imported are the chemicals used in tanning of blue and wet leathers. The economic importance of the industry, however has been modest and on the decline, from a paltry EAC average of 0.6 percent (share of Agriculture GDP) in 2013, to 0.28 percent in 2017. The Vietnamese leather industry, on the other hand, stands in sharp contrast with that of the EAC, contributing as much as 40 percent of the agricultural GDP, in 2017. In the EAC, the low contribution of the industry to GDP, is attributed to several factors, including the lack of diversified markets, and low product differentiation.

Figure 3: Revenue from the Leather Value Chain as a Share of Agriculture GDP (%) 2013 and 2017



Of all the Partner States, it is only Tanzania which registered a positive growth - increasing by 700 basis points, in the period 2013 to 2017 (Figure 3).

Livestock, on the other hand, contributes between 15 percent and 25 percent of total value of the agriculture sector's output. Smallholder farmers own about 90 percent of livestock in the region. In 2017, the EAC region had 188.1 million livestock (cattle, sheep and goats). Close to two-thirds of the cattle population is found in Tanzania and Kenya (Figure 4).

The off-take rate in the EAC region is promising, and is estimated at about 20 percent (for cattle, sheep and goats, combined). This off-take rate is reasonably high, compared with COMESA and SADC (at about 13.5 percent), thanks to the high consumption of meat in the region. Since hides and skins are a by-product of the meat industry, the volume of hides and skins produced depends on meat production. Indeed, the demand for meat in the EAC has been on the rise (up by 15 percent over the period 2012 to 2016), and therefore, a good growth indicator for the hides and skins/leather industry in the region.

**Figure 4: Cattle Population in EAC:
% Contribution from Individual Partner States**

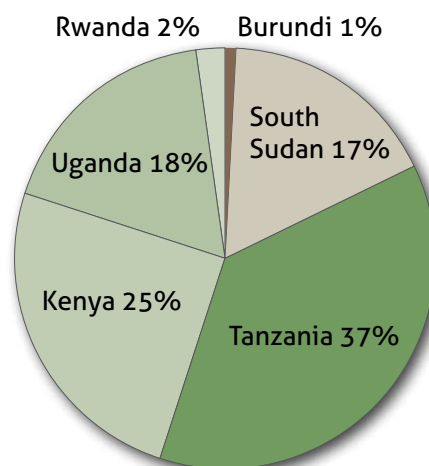


Table 3: Meat Consumption in the EAC Region (Tons 2012 – 2016)

Country	2012	2013	2014	2015	2016	CAGR
Uganda	350780	363028	373807	373807	377157	2%
Kenya	520,185	542,373	8,472,413	9,118,229	10,994,000	84%
Tanzania	8,410,000	8,680,000	9,033,372	8,721,710	8,907,210	1%
Rwanda	1,351,000	1,423,600	1,309,162	1,270,119	1,396,048	1%
Burundi	763,482	480,393	544,100	1,433,096	1,433,096	13%
Total	11,395,447	11,489,394	19,732,854	20,916,961	23,107,511	15%

Source: COMTRADE (2018)

All Partner States, have, through Development Partner funded projects, embarked on initiatives to increase live-stock herds, to support farmers' incomes and also create new market opportunities for livestock. In Uganda, for example, the European Union is funding a Euro15m project to support and develop a market oriented, environmentally sustainable meat industry. It appears that initiatives to promote the value and also guarantee the sustainable production of high-quality hides and skins are absent in donor funding to the livestock sector (farm level).

The Table below, summaries key statistics on the livestock population, the off-take rate and volume of hides and skins produced for the EAC Region (totals/averages of the six Partner States).

Table 4: Livestock population in the EAC Region (2018)

Parameters	Burundi	Kenya	Rwanda	Tanzania	Uganda	S. Sudan	EAC Tot./Avg.
Livestock Population	4.56 m	62.32 m	5.03 m	57.7 m	28.7 m	36.2 m	188.01 m
Off-take rates	• 12% for cattle • 20-30% for goats and sheep	• 10% for cattle • 12-15% for goats and sheep	• 20% for cattle • 28.5% for goats and sheep	• 10-15% for cattle • 28.5% for goats and sheep	• 12-15% for cattle • 20-30% for goats and sheep	• 4% for cattle • 10% for goats and sheep	• 12% for cattle • 22% for goats and sheep
Vol. of Hides produced per annum (pieces)	0.1 m	1.75 m	0.2 m	4.03 m	1.4 m	0.47 m	7.32 m
Vol. of Skins produced per annum (pieces)	0.744 m	6.20 m	0.80 m	7.2 m	3.78 m	2.5 m	14.42 m

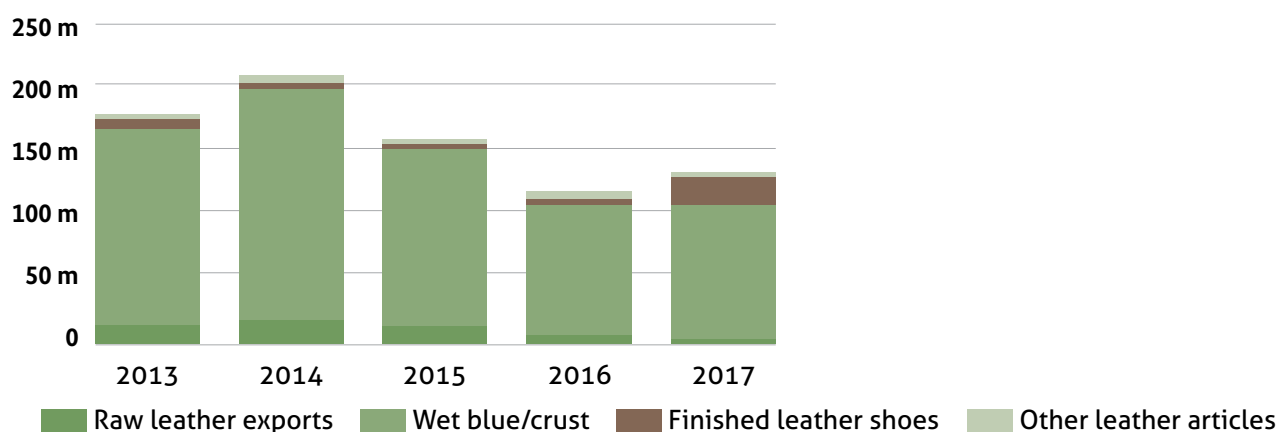
Source: National Stakeholder Consultations (2018) for the Development of the EAC Leather and Leather Products Strategy

4.1.2 Extra and Intra-Regional Trade (Exports and Imports)

A. Extra-Regional Trade

From Fig 5 below, close to 90 percent of tanned hides and skins are exported as wet blue, however, this could be upgraded to crust and finished leather if technology and investment is increased through partnerships. Trade in wet blue/crust, has however, been on the decline over the past five years (2013 – 2017), at CAGR of -0.07. This is in part, explained by a lack of diversified markets – there has been an over dependence on the markets in China, whose leather industry has been undergoing structural changes, for the past one and half decades.

Figure 5: Aggregate Exports of Leather products from EAC (Values in USD)



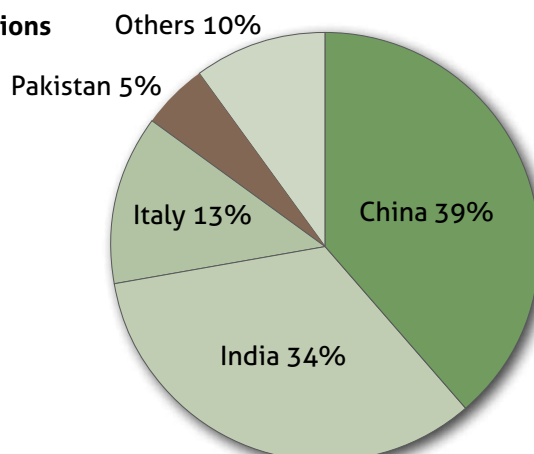
Source: COMTRADE (2018)

Since 2014, there has been a structural unwinding of the leather business in China, due to increased labour costs and a severe crackdown on industries which pollute the environment. Investment in the leather industry has reduced and several Chinese tanneries have closed due to pollution and related financial reasons⁴. For this reason, tanneries in Uganda, for example, have significantly scaled down operations (by about 90 per cent), from August to October, annually, because the fewer industries to which they now export in China, are on leave – winter break.

Furthermore, the diversification to synthetic products in China, has significantly scaled down the demand for wet blue exports from EAC (Figure 6). Shoe manufacturers in China, have since 2014, introduced a large percentage of synthetic products to the market, and this strategy has been a success – synthetic products sell well, particularly, among casual buyers, who have difficulty, identifying synthetic products from genuine leather.

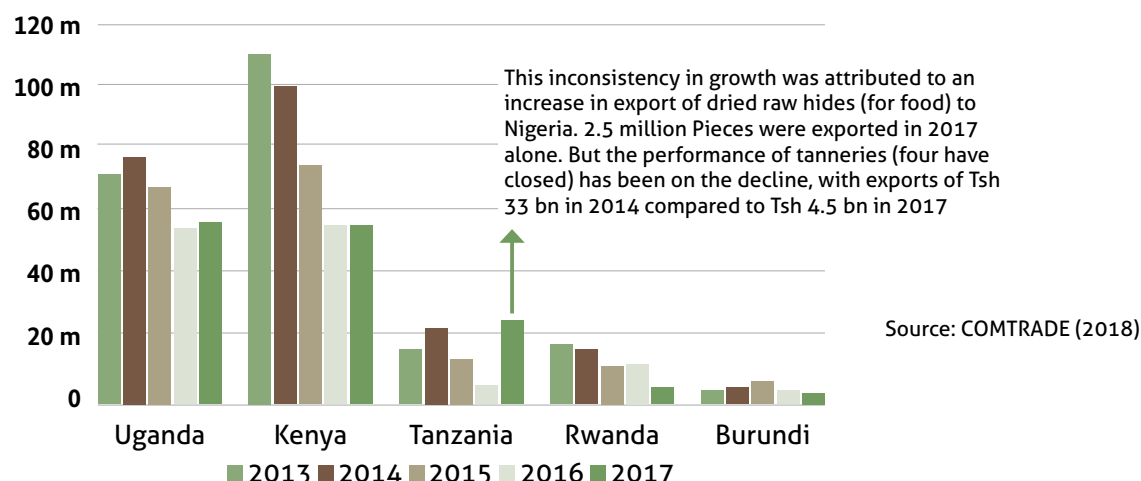
In the EAC region, Kenya and Uganda are the biggest exporters of wet blue, followed by Tanzania and Rwanda (see Figure 6 below). In the period 2013 to 2014, Kenya's exports of wet blue were double those of Uganda. However, for the past three years (2015, 2016 and 2017), a plunge in the global demand for wet blue (estimated at about 40 percent), and the premium Uganda earns from high quality wet blue, made from defect-free hides and skins, helped the country match its export earnings to those of Kenya.

Figure 6: Major Export Destinations



⁴ <https://www.beefcentral.com/processing/global-hides-market-a-complex-business-by-china-still-drives-the-bus/>

Figure 7: Aggregate Exports of Leather products from EAC (Values in USD)



Estimated Value lost, from Exporting Wet Blue

Leather is measured in square feet. On the international market⁵, the price of finished leather costs about US\$5 per square feet (ft²). From the EAC, wet blue, which is the most exported leather product, is sold at US\$1.5 per ft², implying that at least US\$3.5 is lost. Using these figures, EAC had the potential to earn as much as US\$1.7 billion in the period 2013 - 2017, if it had tanned its wet blue into finished leather (Table 7). In terms of finished leather shoes, a high-quality leather shoe on the domestic market costs about US\$17. Ultimately, for every dollar of raw leather exported, a minimum of US\$4.8 is lost due to lack of value addition. If the exported wet blue were converted into finished leather shoes, the EAC sector would have generated a minimum of US\$3.3 billion over the last five years (2013-2017) as shown in the Table 7 below.

Table 5: Estimated value lost due to export of Wet Blue from EAC

Leather product	2013	2014	2015	2016	2017
Wet blue/crust (USD)	151,900,106	181,161,997	138,627,724	99,727,454	106,365,141
Finished leather (USD)	531,650,371	634,066,990	485,197,034	349,046,089	372,277,994
Difference (Lost in unfinished leather – USD)	379,750,265	452,904,993	346,569,310	249,318,635	265,912,853
Difference (Lost in Leather shoes – USD)	729,120,508.8	869,577,585.6	665,413,075.2	478,691,779.2	510,552,676.8

Source: Compiled by Consultant (2018)

Wet-blue, like raw hides and skins, is a critical raw material for manufacturing of downstream industries such as footwear and leather goods. Efforts to discourage wet blue exports, should be stepped up. The EAC region loses essential raw materials in the form of wet blue and crust, thus denying the region the opportunity to move into the high value added manufacturing of finished leather, footwear and leather goods, but have to bear the long-term environmental and health costs associated with processing of wet-blue, such as chrome disposal and management.

⁵ internationalleathermaker.com

B. Intra-Regional Trade

Intra-regional trade constitutes three items; (i) raw hides and skins, (ii) wet blue and (iii) footwear. The graphs below illustrate trade in the different commodities:

Raw Hides and Skins

Figure 8: Uganda's Raw Hides and Skins Trade with the EAC Region

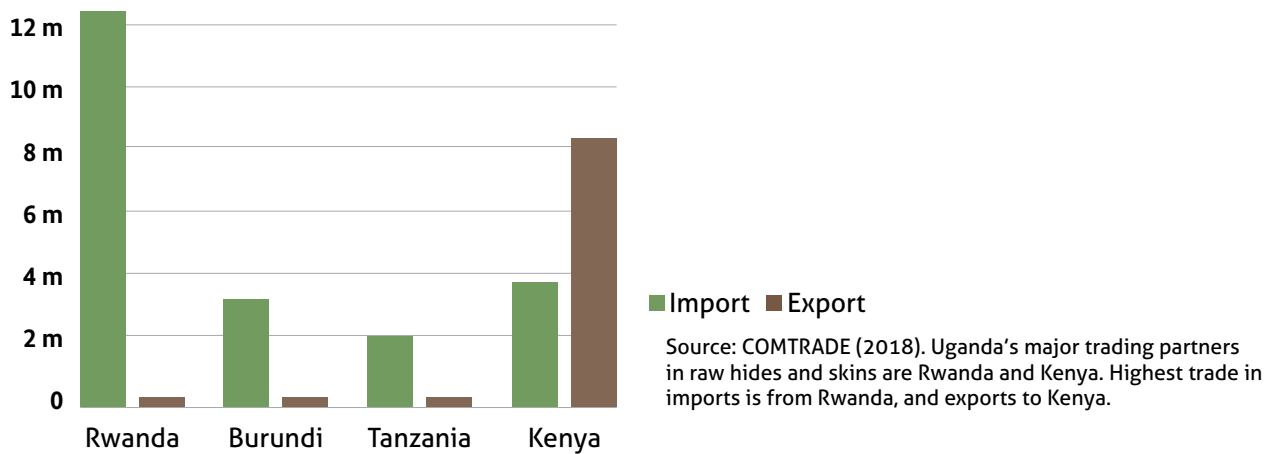


Figure 9: Kenya's Raw Hides and Skins Trade with the EAC Region

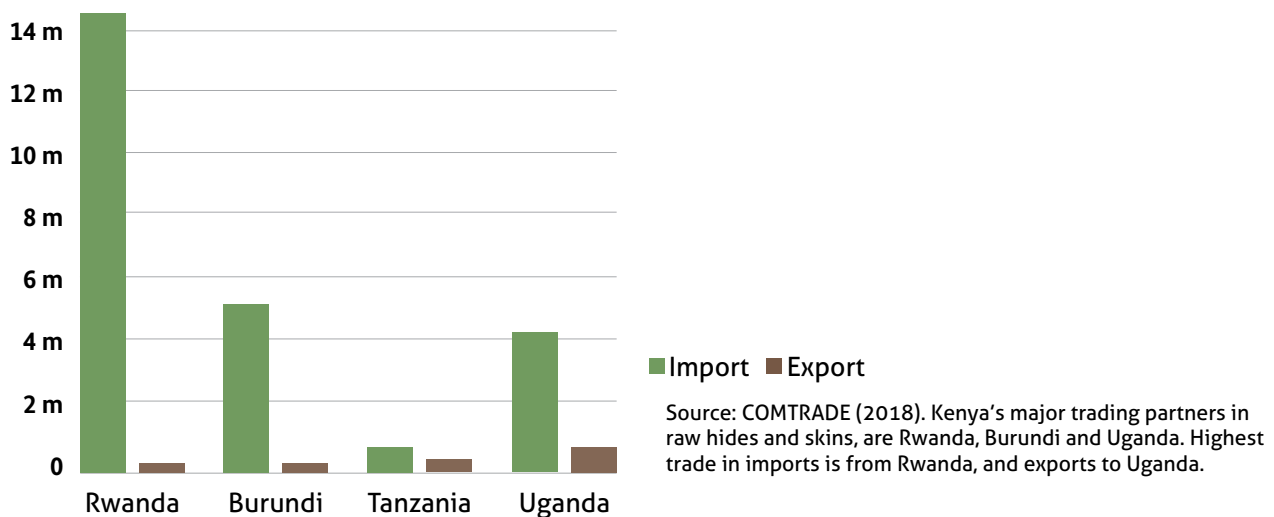


Figure 10: Tanzania's Raw Hides and Skins Trade with the EAC Region

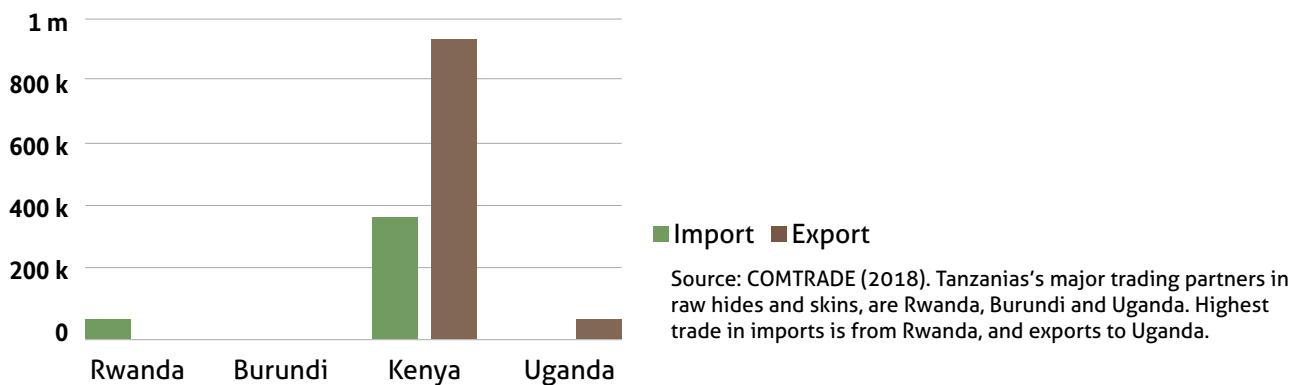


Figure 11: Rwanda’s Raw Hides and Skins Trade with the EAC Region

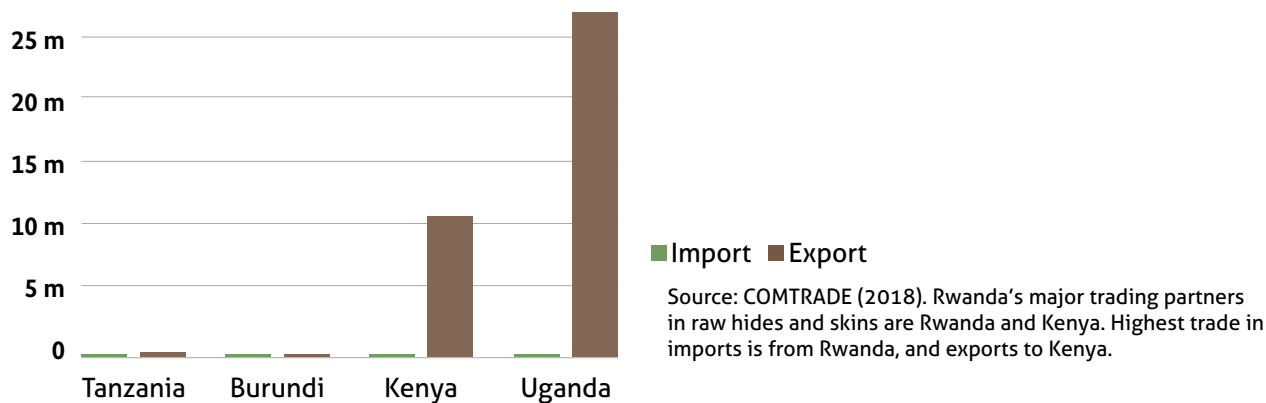
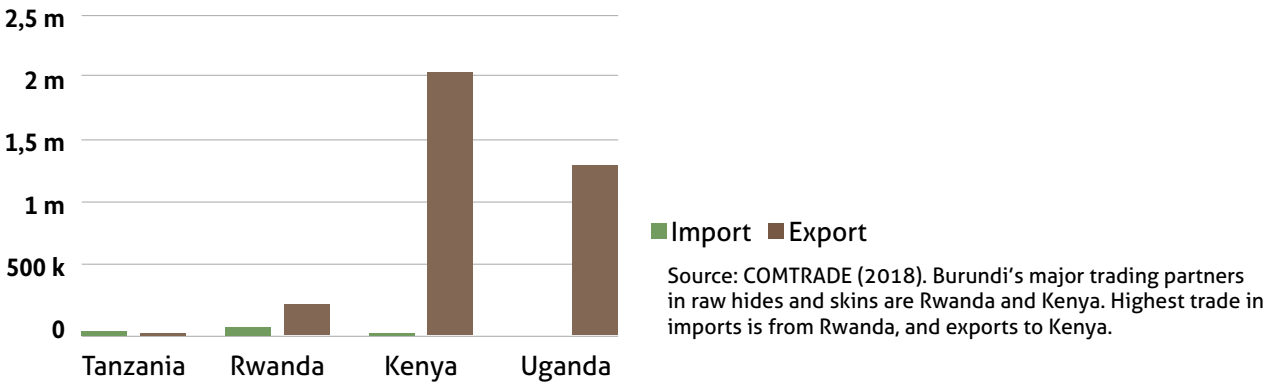


Figure 12: Burundi’s Raw Hides and Skins Trade with the EAC Region



Wet Blue
Within the region, Kenya and Uganda are two major traders in wet blue. In 2017, Uganda exported wet blue worth USD 6.5 million to Kenya. In the same year, Kenya, imported USD 0.15 million, and USD 0.09 million worth of wet blue from Tanzania and Burundi, respectively. Rwanda registered no trade in wet blue.

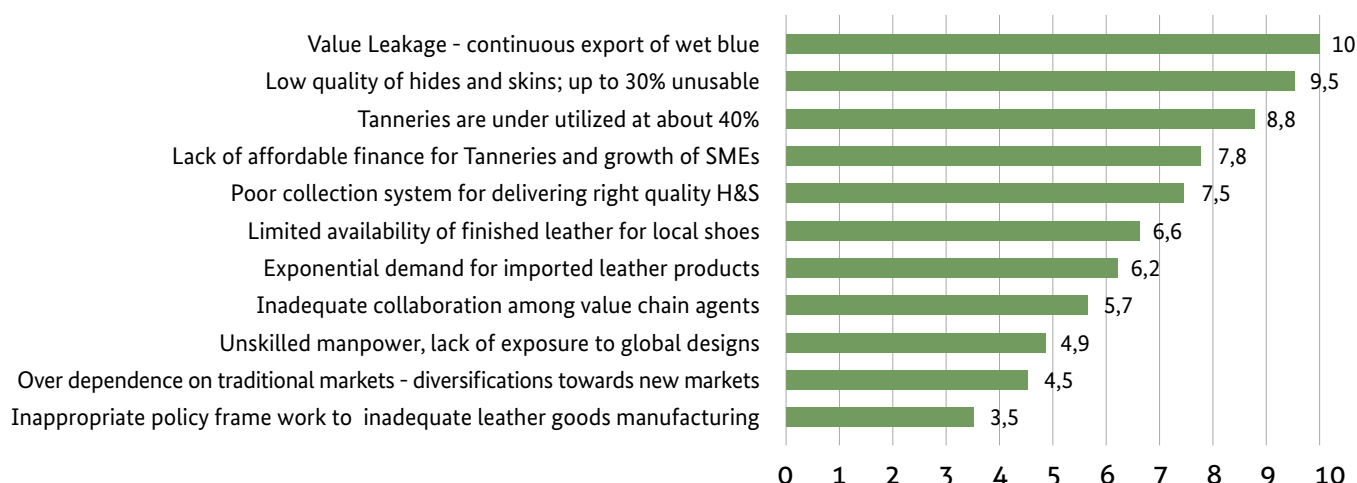
4.2 National Leather Value Chain Policies and Strategies

4.2.1 Overview
Leather is recognized as one of the high priority sectors in the EAC region, and a viable tool for driving Partner States’ long-term development agenda (Rwanda 2020; Burundi 2025; Kenya 2030; Tanzania 2025; and Uganda 2040). Partner States have, accordingly, instituted comprehensive Leather Value Chain Policies and Strategies, to help grow competitive and coordinated leather industries built on modern technology and global practices, which are responsive to the world market. The Policies and Strategies are post 2015, with mechanistic inputs and outputs aimed at promoting export diversification, curbing value leakage, and reinvigorating the

potential of the leather industry to the socio-economic development and transformation of the economies of the Partner States (creating jobs, income generation and alleviation of poverty).

The Leather Value Chain Policies and Strategies deplore the low levels of processing (secondary and tertiary tanning), and rank them as the most problematic factor to the competitiveness of the value chains (Figure 3). This ranking, highlights the minimal value added (or the high levels of value leakage) and, hence, the opportunities Partner States need to seize (as espoused in their Strategies) to further the competitiveness of their value chains. Accordingly, a number of initiatives have been embarked upon, to avert the risks associated with a mono-product driven export industry, with a focus on retaining 85 percent of the value that is presently leaked through the export of wet blue. Notably, efforts are being made to tame the monopoly of big tanneries – by opening the sector to more local and foreign direct investment, particularly in the value-added segments of crust and finished leather and production (manufacturing) of high value leather products.

Figure 13: Most problematic factors hindering realization of the potential of Partner States'



Source: Survey of Key Stakeholders in the Leather Industry (2018), complemented by Analysis of the Leather Policies and Strategies

The low quality of hides and skins is another intractable issue and is ranked the second most problematic factor to the competitiveness of the value chains. Presently, close to 40 percent of raw hides and skins, purchased by tanneries, are rejected with huge defects (deep flay cuts, shapeless, etc.) and among the 60 percent purchased, between 5 and 10 percent are unusable, because they are easily holed, during the process of liming and tanning.

Finance (the fourth most problematic factor) is critical in value addition, and its shortage at any point in the production chain, compromises the quality of the final product. Accordingly, the Leather Policies and Strategies espouse several mechanisms to facilitate its availability at affordable terms, including clustering SMEs to stimulate local value addition and greater competitiveness of the value chains. The primary strategy is to consolidate the leather SME cluster and promote its dynamic restructuring, since the structure of the leather industry, in all Partner States, is highly fragmented with limited linkages among stakeholders.

Incentivizing leather goods manufacturers is ranked the least problematic. In response, Partner States commit a long-list of incentives to invest in the sector. In Rwanda, for example, local production of leather goods (and footwear) is being encouraged through tax exemption – No VAT is charged on these

products – the Government has since removed 52 percent tax on locally produced leather goods. Also, recent efforts to allocate land for setting up leather finishing lines resound Partner States' commitment for more value addition, and the installation of effective infrastructure, for tannery management, through the construction of leather parks.

In summary, the Leather Value Chain Policies and Strategies are a pathway towards value addition and retention. Prospectively, the Policies and Strategies, advocate measures that will significantly improve both the quality and quantity of collected hides and skins, increase domestic processing and manufacturing capacities (footwear enterprises) and reduce the export of wet blue, whilst increasing production of value-added leather products to optimize value from the sector.

4.2.2 Effectiveness of the National Leather Value Chain Policies and Strategies

In order to gauge the effectiveness of Partner States' Leather Value Chain Policies and Strategies, each Strategy was scored/ranked against six buyer-related benchmark indicators, which must be met, in an open market system with strong competition, for a value chain to significantly contribute to the development of a country/region (See Table 8 on the next page for more details)

Table 6: Ranking of Partner State Strategies against the five buyer-related benchmark indicators

Buyer-related Benchmark Indicators	Uganda	Tanzania	Burundi	Rwanda	Kenya
Delivery of affordable quality of hides and skins at a competitive cost price	Strong	Strong	Strong	Strong	Strong
Availability of sufficient quantities of right quality raw material (hides and skins)	Strong	Strong	Strong	Strong	Strong
Sufficient industrialization and diversification to make full use of all grades	Moderate	Moderate	Moderate	Moderate	Moderate
Availability of reliable logistics	Weak	Moderate	Weak	Weak	Moderate
Availability of competent management	Moderate	Strong	Moderate	Moderate	Strong
State of Implementation of Leather Value Chain Policies/Strategies/Programs	Modest	Modest	Modest	Modest	Modest

Source: Analysis of the Leather Policies and Strategies (2018)

As illustrated in Table 8 above, all Policies and Strategies advocate strong measures for the delivery of affordable hides and skins and in sufficient quantities. Currently, close to 60 percent of damage to the hides and skins occur during the slaughtering process. These damages are avoidable, if appropriate measures advocated by the Policies and Strategies, are implemented. Also, if the measures in the Policies and Strategies are adequately implemented, they should be able to curb the 5 – 10 percent of hides and skins that do not reach/join national value chains (commercial channels). The Policies and Strategies, holistically, recognize the need to reform upstream activities (hide collection and grading), if the value chain is to realize its full potential.

Institutional arrangement to support coordination:

Programs in the Policies and Strategies, aimed at enhancing the institutional coordination and planning capacities of the Leather Industry are another area of strength. Tanzania has made good progress in instituting the Leather Regulatory Board in Tanzania; Kenya has the Kenya Leather Development Council, and recently registered the Leather Apex Society of Kenya (representing all associations in the sector); in Rwanda, the Leather Value Chain Platform was formed, as espoused by the National Strategy to Transform the Leather Sector; the Uganda Leather and Allied Industries Association is operational; in Burundi, the need for a Leather Association, is gaining importance. These institutions will help enhance coordination, sector development and policy advocacy.

The Leather Policies and Strategies are also strong advocates for skills upgrade training. Training agencies and institutions (for example the Training and Production Center for Shoe Production Institute, in Kenya) have been upgraded, however, the training and technical assistance infrastructure has substantial shortfalls, both in facilities and services: there are few

trainers, the training equipment and technology is obsolete, and the managerial and technical structure of service centres is generally incomplete, only being equipped to provide services in a few areas and activities and with limited country coverage. Presently, the EAC region does not have enough qualified technicians to do leather finishing – tanneries which finish leather, hire experts from outside the region which is very costly in terms of work permit and wages.

Box 1: Rejects are Inevitable in the Industry

TR is the best grade and therefore fetches the highest returns. However, the competition for the best quality raw hides is so high and yet, the high quality is hard to come by. Usually, about 60 out of 100 raw hides and skins pass for TR&IV, with the rest demoted to rejects. Small and Medium Sized Tanneries, are therefore, best suited, to buy reject material, and make the most out of them, because of the intense competition for high quality hides and skins. A hide bought as reject can produce quality wet-blue if sided. One side can be grade IV or V and the other side can be grade VI or reject. It therefore makes economic sense for Small and Medium Sized Tanneries, to buy/focus on rejects. In essence, they spend less buying but make the most out of what is bought. It is also important to note a good quality hide or skin can turn to reject along the way (during tanning).

Rejects will always feature on the market. They are unavoidable. Reject material are also marketable. In a consignment of 10 containers for export, one may find only 2 containers of TR hides and skins. Most of the orders are for the other grades since TR is fairly expensive. Many customers prefer the other grades to TR. Rejects make money for everyone. Inadvertently, the production of rejects, has been necessary for growth of small-scale industries who can't afford to export the quality TR/IV/V because most customers prefer (20/50/30%).

Source: Interviews (Partner States; 2018)

Utilization of leather processing by-products: Efforts to make full use of all hides and skins grades are gaining momentum, thanks to campaigns championed by the Leather Policies and Strategies, on the utilization of all raw materials, irrespective their design. However, some weaknesses abound, presently, small-scale industries, are seizing hind-grades (low quality - see Box 1 for more details) of hides and skins (inadvertently, promoting their production), including rejects of wet blue (unfit for export), to produce finished leather for the local market, and also use the same leather to produce shoes for various institutions, and the retail market. The challenge is, the quality and durability of the shoes produced is low – experience from users is that they cannot last beyond one year, because they were produced from low quality leather (which owes its source to hind-grades).

Box 2: Production of the Leather Meal

The production of the Leather Meal, is a case of a forward linkage, as illustrated below. Before tanning, the hides and skins are “green-fleshed”. In essence, this means the removing of surplus flesh on the hides, left from flaying. If the flesh is left on the hides, it slows the tanning process – it reduces chemical consumption, or more chemicals need to be used, in tanning, to erode the flesh. If the flesh is removed, it helps tan the hides and skins, uniformly. The removed flakes (shavings) of flesh are washed, cooked, minced, dried and pulverized, to mix with crushed bones (calcium) to make the “Leather Meal” for/to supply the poultry industry. The leather meal has a 63 percent protein content, and a good substitute for small silver fish (whose stock is dwindling in lakes, from over-fishing), used in poultry feeds.

Source: Interviews (Partner States; 2018)

Furthermore, at all stages of production, the Leather Policies and Strategies does not advocate a balanced impetus, for value addition and retention. There should a positive incentive, to invest in the different by-products, along the value chain, as part of efforts to promote backward and forward linkages. In all the Partner States, utilization of tanned by-product (gelatine), which is categorized as a raw material, despite undergoing an initial stage of treatment, is still contentious.⁶ Presently, gelatine is seen as **limed hides waste**, however, due to advanced technology, it can be used as food additives and also made into dog sausages, office glue, and other adhesives. Additionally, gelatine can be used in making pharmaceutical capsules. Processing gelatine into the above products, is a way of eliminating waste, since it currently lacks designated dumping sites – and NEMA is hesitant to off sites, because of its potential to pollute water sources and bodies. Also, processing gelatine into the above products can increase produc-

tivity and create more jobs. The production of the Leather Meal, in Uganda and Rwanda, demonstrates a forward linkage along the value chain, that should be promoted (See Box 2 for more details).

4.3 Standardizing the Leather Industry (Hides & Skins and Leather Products)

Past efforts to standardize the leather industry date back to the early 1990s, in 1994, the United Nations Industrial Development Organization (UNIDO), in partnership with the International Standardization Organization (ISO), came up with the structure of grading hides and skins that follows International norms. Implementation of the UNIDO standards and grades, has however, been inadequate. Today, the institutional framework that reviews and enforces these standards and codes of practice is generally fragile.

Grading of Hides and Skins

The private sector (tanneries), have for years, led efforts in designing industry standards, much of which are dictated by the global markets they serve/export to. Different export markets, prescribe different levels of quality of wet-blue from the tanneries, hence, the design and enforcement of a classes of grades for the hides and skins which need to be collected and tanned. Markets in Italy, for example, emphasize quality specifications on the corium layer (the main layer of hides or skins constituting about 80 percent of its thickness), while markets in Asia emphasize quality specifications on the grain layer of the hides and skins.

Tanneries are, therefore, keen on the operations of upstream industries (abattoirs and slaughter houses, and traders of hides and skins) to track the quality of hides and skins, to the requirements and descriptions, demanded by the global markets supplied/exported to. At most slaughter houses, however, grading of hides and skins, is by way of eyes of an experienced hides and skins trader – there are no formal structures or systems in place for grading. Flayers push to rip and flay more animals in order to earn more, as opposed to taking more time on an animal, to save holes and deep cuts in the hides and skins.

The Grading of hides and skins differ across the region. Grading in Kenya, differs from that of Uganda (Uganda’s grading is similar to that of Rwanda and Burundi) and Tanzania, because Uganda hides and skins are of higher quality than those of Kenya; and Kenya hides and skins are better than that of Tanzania. To illustrate, Uganda grades TR/IV/V in 1000 selected pieces can be 18/30/40 compared to Kenya and Tanzania TR/IV/V 15/25/45 and 10/20/50 respectively – see Table 9 on the next page.

⁶ Since gelatin passes some stages tanning, consuming significant quantities of chemicals, it should be exempt from export duty, as is case with wet blue

Table 7: Variations in Quality of Hides and Skins, from Uganda, Kenya and Tanzania

Grades	Uganda (Rwanda and Burundi)	Kenya	Tanzania
TR (I – III)	18%	15%	10%
IV	30%	25%	20%
V	40%	45%	50%

Source: Interviews (Partner States; 2018)

The reasons for the above variation, in the countries, are delineated below;

- The climate of Uganda is good for keeping animals. Also, most of the animals are kept in ranches, compared to Kenya and Tanzania where most animals graze in the thorn bushes which damage the hides and skins of animals with scratches.
- In Kenya most of the hides and skins come from semi-arid areas which are infested with ticks and small pox and scratches from tree thorns.
- In Uganda, few farmers use blunt marks for Animal identification, compared to Kenya. Blunt marks lower the grading quality.
- Tanzania's hides and skins are regarded by the industry to be of lowest quality in the EAC – they have the thinnest substance and weakest fibres, borne from the semi-arid climate of the country. Annually, the quality of hides and skins has been on the decline, from a ratio of 20:30:50 (TR, IV and VI) a decade ago, to 5:10:85, to date. For this reason, Tanneries no longer grade, because there is literally nothing to grade/worth grading! The low quality of hides is also attributed to poor animal husbandry practices, starting from breeding. Over 90 percent of the animals are indigenous, however, there are few efforts to improve the genetic makeup of the current herd through Artificial Insemination – inbreeding is common, leading to thin skins or hides and small body sizes. Additionally, the nutrition of the livestock is inadequate, the country lacks proper programs on disease control and treatment, and there are several improper hot branding sites for marking animals - collectively, these factors, continue to deteriorate the quality of hides and skins in Tanzania.

Until recently (2016), when Partner States instituted

Leather Councils, Platforms and Associations, the enforcement of grading standards, for hides and skins, has been poorly coordinated – with no dedicated public sector institution. Inspection and enforcement activities were scattered across a number of institutions, resulting in lack of coordination and inefficiencies. Confusion of roles of the various actors in the leather industry is common, resulting in “mission drifts”. In Uganda, for example, the Department of Veterinary Inspection and the Department of Animal Production, under the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) are both mandated to regulate Hide and Skins activities; resulting in conflicts as to who does what. In controlling the quality of leather, it is more effective to work with the Department Veterinary Inspection, rather than the Department of Animal Production.

Furthermore, the levels of engagement of stakeholders in the standard enforcement are low, there is a need to increase stakeholder engagement in standardizing activities and training stakeholders on the approved standards. Additionally, most of standards are not mandatory, hence hampering their enforcement.

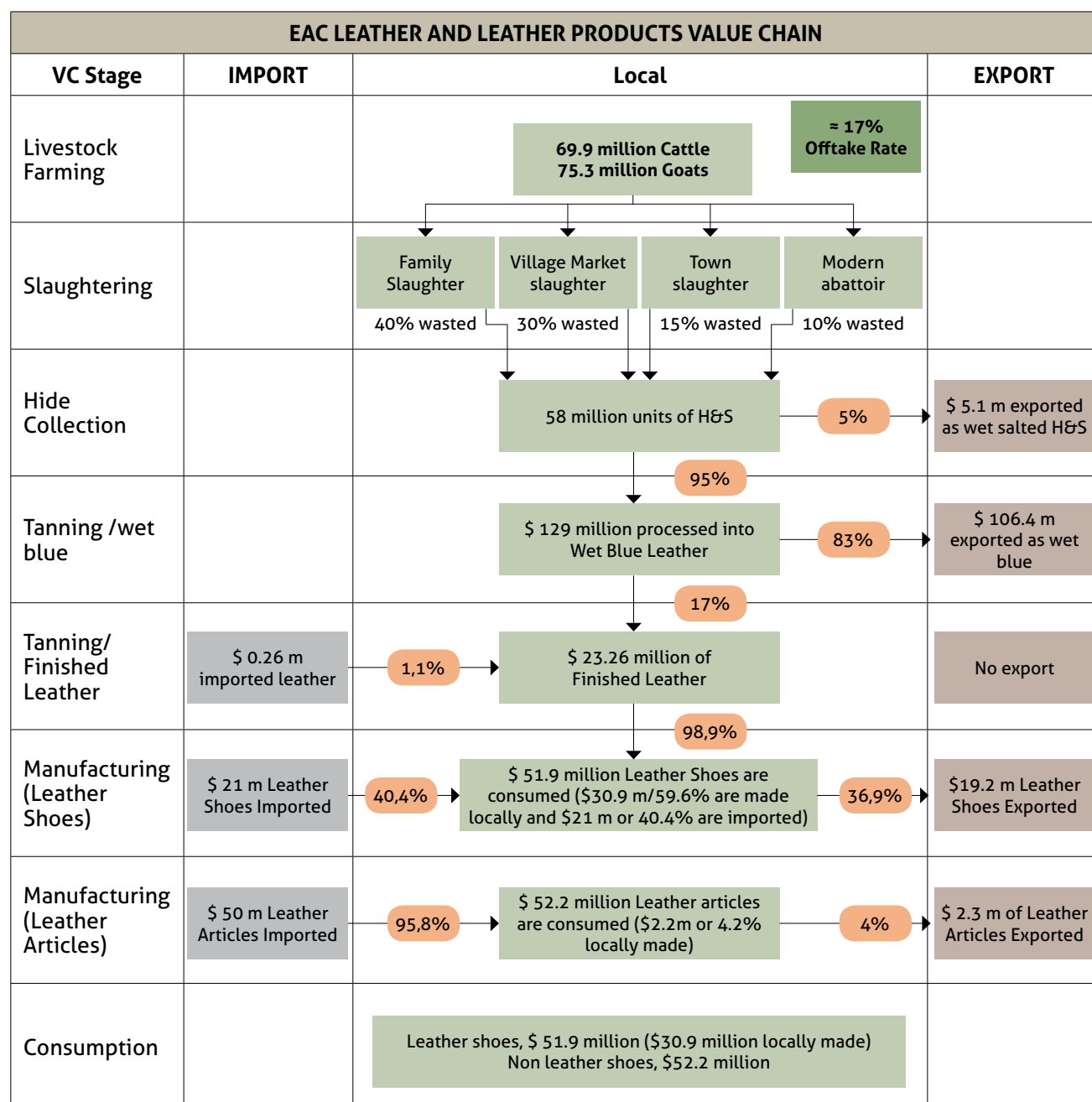
Standards at the Tannery - Tanning into Wet Blue

Partner States follow internationally accredited standards, in the production of wet blue. These standards have, over the years, been tailored, to suit the local context. International buyers, often visit the tanneries, to ensure compliance. There are nonetheless, discrepancies in their application and enforcement across tanneries, partly because the Region has not yet developed a code of practice on tanning (for the tanneries). Several leather products standards are yet to be developed, a situation which hampers trade in these products and affects the quality of leather products produced in the region.

5 DESCRIPTION OF THE LEATHER AND LEATHER PRODUCTS VC IN THE EAC

The tanning of raw hides and skins into finished leather involves several stages as illustrated Figure 14 below, the leather and footwear value chain. The sections below describe in detail the different stages of the value chain and factors that hold back their competitiveness.

Figure 14: The Leather and Leather Products Industry Value Chains in the EAC



5.1 Livestock Farming

(Production of Hides and Skins)

Livestock Farming (animal husbandry), is the first stage of the leather value chain. Animals that are bred well, and in a proper grazing environment, produce high quality meat, hides and skins. Farmers, however, value trade in meat, more than in hides and skins. Trade in hides and skins are considered of low monetary value. Sadly, the industry lacks a transparent price structure and price differential for better hide and skins quality. As illustrated in Section 8.2, there is an urgent need to put in place a lucrative pricing (a premium) structure for a good hide/skin, if the trade in hides and skins is to be appreciated at farm level. To realize this value, Partner States, and the region (EAC Secretariat), should start recognizing hides and skins as a National/Regional Resource.

Presently, farmers receive between US\$270 and 400 per animal (cattle), and about US\$ 0.5 - 1 per hide if slaughtered directly. If sold to middlemen (butchers), as often is the case, who trade the animals in abattoirs, the value of the hide/skin, is not factored in the cost price. At the abattoir, a good hide can weigh between 20 and 25 kg, to earn middlemen (butchers) between USD 4 and 6, at a price of USD 0.21 per kg. At the abattoirs, hides and skins traders book the hides and skins from middlemen (butchers) at USD 0.13, to earn a profit/mark-up of USD 0.08. Overall, farmers lose up to USD 4 per hide, if they were to leave a reasonable margin for the hides and skins traders.

Since the greatest part of the revenue (over 99 percent), comes from the meat, farmers are neither motivated nor incentivized to embrace good husbandry practices for obtaining better quality hides. The poor handling of animals (including branding, pests –from inadequate dipping, inbreeding and poor nutrition) is estimated to reduce the value of the hides and skins, to between 10 and 40 percent lower than if such practices were not promoted. Below are the practices:

- (i) **Branding and marking of hides and skins:** Livestock is branded or marked to show ownership. This practice, unfortunately affects the quality of hides and skins. Other defects on the hides and skins of livestock are scratches, wounds and scars that result as they openly graze in bushes for pasture in the predominantly traditional livestock production system. Unfortunately, a number of these defects can only be seen much later in the tanning process.

- (ii) **The effects of pests and diseases:** Pests and disease attacks, often result in lower quality hides and skins, or even outright rejections by the traders. In all Partner States, Ecto-parasites are common. These are small flea like insects including lice, ticks, fleas and mange mites that cause inflammation, weight loss, tissue damage and sometimes death in livestock. According to tanneries, skin defects due to Ecto-parasites are responsible for 35 percent of sheep and 56 percent of goat skin rejections and lost revenue.

- (iii) **A sign of prestige:** farmers perceive their herds as a sign of prestige – the larger the herd the more affluent the farmer, they keep their livestock for longer periods and as a form of security, only going to the market when they have a financial emergency, often when animals are too old. In South Sudan, cattle are mostly used for dowry and goats and sheep used for beef at celebrations and festivities domestically.

- (iv) **Breeding of animals:** breeding defines the genetic make-up of animals. The genetic make-up in turn, determines the size and thickness of the hide or skin. Today, 25 percent of the breeds in the EAC region are exotic, while the balance (75 percent) are indigenous. While the 25 percent reproduce via AI (Artificial Insemination) to enrich their genetic make-up, using semen from improved stock, some of which is imported, the 75 percent are inbred. Inbreeding, overtime, reduces the weight (size) of animals, and consequently, the breadth and circumference of the hides and skins. Because of inbreeding, a hide might reduce to the size of a skin. In EAC region, the average size of a hide⁷ measures between 20 – 25 sqft, compared to 40 – 50 sqft in England. This discrepancy is caused by inbreeding. The challenge is that farmers and pastoralists are not aware of the consequences of inbreeding.

- (v) **Nutrition:** There are few extension workers to advise farmers on good feeding practices and feeds. If feeding is inadequate and deficient, the animal size is small and so is its hide (they are small and thin). Inadequate feeding leads to stunted growth, and underweight animals.

⁶ Animals with this size of hides, feature prominently, in animals that are slaughtered daily. They are a preference to the butchers, because, their live/dressed weight suits the income of the butchers. At dressed weight of 150kg, this animal can easily be traded by butcheries, whose daily sales range between 40 to 50kg. Challenge is, it produces the hides of the smallest size (circumference and width) for sale

The above practices notwithstanding, about 10 percent of hides and skins in rural areas are either wasted, or traded informally without joining the national value chains. Tanners decry the poor quality of hides and the absence of an organized collection system capable of providing a quality-based pricing structure and delivering the required quantity and quality to the industry.

In the recent past, the emergency/discovery for a "new market" for hides and skins in West Africa as a source of food (See Box 3 for more details), has undermined campaigns to free the sector of defects (hind-quality hides and skins). In the foreseeable future, the new market in West Africa, could present significant competition for hides and skins to tanneries, consequently, stalling production of reasonable quantities of finished leather, to meet the 2019 target on the ban of 2nd hand leather shoes, in the region.

Box 3: Raw Hide Exports to West Africa

Presently, between 50 and 80 percent of the hides and skins produced in Dagoretti Complex, in Kenya are sundried, and exported to West Africa (Nigeria). This new business, though booming, has had its fair share challenges, at inception. The orders for the dried hides and skins, are often intermittent/inconsistency. West Africans, can place an order, after 4 to 6 months – the orders are inconsistent. Nonetheless, traders in hides and skins at Dagoretti, have expressed a strong desire to trade with the West African Market, then supply local tanneries, because tanneries pay low and volatily, in line with fluctuating prices of wet blue, on the global market.

A summary of the key issues constraining the delivery of high-quality hides and skins at the farming stage, is presented below.

MAIN ISSUES RELATED TO LIVESTOCK FARMING

HUSBANDRY

- Poor animal husbandry practices (few extension services and high cost of inputs)
- Improper animal handling facilities
- Seasonal pests and diseases (lack of dipping facilities)
- Branding of animals affects the quality of hides

COLLECTION AND TRANSPORTATION

- Hide preservation skills are poor; minimal attention is paid to hide quality, because hides have a low economic value
- Difficulty in collecting and preserving hides from villages
- Distant selling points, if

PRICE AND ECONOMIC INCENTIVES

- Price and benefit from hides is too low
- Unfair pricing structure and lack of transparency between hide collectors, abattoirs and farmers

5.2 Slaughtering

In ALL the Partner States, the vast majority of slaughter slabs are small-scale, with a throughput of between 1 to 10 cattle per day. The slaughter industry comprises four main categories:

- Household (Family) Slaughter:** Fewer animals (less than 0.1 percent of the region's off-take rate) are slaughtered at this level. There is no infrastructure or meat quality assurance service in this category.
- Slaughter at village markets (Rural slaughter):** At every village market, held fortnightly, there is meat offered for sale that is slaughtered on a slab for some markets and on the ground for other markets. Again, there is limited infrastruc-

ture and no meat quality assurance service. Lifting blocks for raising animals are not available and all the operations are carried out on the floor and running water is not available. Often, rural slaughters are not adequately supervised.

- Urban/Town slaughter slabs:** These concrete slabs (in all major towns) are built on raised ground to enable the animal to be slaughtered on clean ground, they have a simple corrugated iron roof for shelter; however, the majority (over 60 percent) of these slabs have no facilities for slaughtering animals off ground, nor other basic facilities. The drainage system is poor or non-existent and there are no essential facilities such as water supply, toilets or offices.

(iv) **Abattoirs:** These account for over 90 percent of the Hides and Skins processed by tanneries. However, several lack modern infrastructure and systems for disposal of waste and effluent. A case in point is the Vingunguti Abattoir in Dar es Salaam, Tanzania. Vingunguti was constructed in 1950s. The technology used is obsolete, animals are slaughtered on the ground, and the hides and skins act as a mat, for cutting the animal into pieces. The abattoir lacks hoisting blocks. At commissioning, Vingunguti was designed with a throughput capacity of 40 animals, however, it presently slaughters 400 animals. Nevertheless, Tsh 15.5 billion has been secured by the Central Government to rehabilitate/upgrade the Abattoir to a throughput of 2,400 animals per day (three shifts of 800 animals each - 400 cattle, 300 goats, 100 sheep).

At the slaughterhouses, the quality and value of hides and skins is further compromised, by poor flaying skills and practices and inadequate curing. Flaying of the hides and skins is usually carried out haphazardly, because the primary focus is the cuts of the meat, rather than the presentation of the hides and skins. This leads to scratches, damaged surfaces and uneven skin sizes. The advance payment given by Tanneries to hides and skins collectors (traders) also contribute to flaying defects as collectors do not care about defects but numbers. The tanners also don't buy hides and skins based on grade; thus collectors have no incentive to collect good quality hides and skins.

Table 10 below, summarises the status of slaughtering facilities in individual partner states and flaying techniques.

Table 8: Slaughtering Facilities and Flaying Techniques in the Region

Country	Slaughtering Facilities	Flaying Techniques
Kenya	2,000 slaughter facilities (70% - slaughter slabs; 30% - slaughterhouses of various standards - operated by town councils. Export Slaughterhouses - 7	• Hand flaying using Knives: 99% • Machine flaying: 1%
Uganda	Slaughter houses 40; Slaughter slabs: 800	• Hand flaying using Knives: 99% • Machine flaying: 1%
Tanzania	There are close to 1,000 slaughter slabs. About 40 slaughterhouses, with a nominal throughput capacity of 20 to 100 animals a day, are found in municipalities and other urban areas. Slaughterhouses are estimated to be operating at below 50 percent of installed capacity. In addition to slabs, a further 27 abattoirs on a larger semi- mechanized scale (with 100–400 animals slaughtered per day) are operational. These abattoirs generally have slightly better facilities for slaughtering and the storage of skins. The hygienic levels are also generally better since they cater more directly to meat processing.	• Hand flaying using Knives: 99% • Machine flaying: 1%
Rwanda	6 modern/industrial abattoirs (in Rugali, Rugano, Gakenke, KOADU, CAMR, Buranga), 36 semi-industrial and 349 rural slabs. SIX NEW abattoirs are planned for construction in the next five years, in Rusizi, Ngoma, Kamonyi, Nyagatare, Rwamagana, and Gicumbi	• Machine and Hand flaying for hides. • Pulling for skins.
Burundi	No readily available data	• Hand flaying using Knives: 100%

Source: <http://www.intracen.org/leatherline-portal/african-platform>

Enforcement of existing standards, reinforced by legislations governing slaughtering and monitoring implementation by appointed agency, would greatly improve the quality and ensure availability of good hides and skins for manufacture of quality leather and footwear. A summary of key issues constraining the delivery of high-quality hides and skins at slaughter houses, is presented on the next page.

MAIN ISSUES RELATED TO SLAUGHTERING

FLAYING TECHNIQUES

- Poor slaughtering practices; unskilled labour force; inappropriate technology
- Bad flaying techniques; unskilled labour force; inappropriate knives; low value hides
- Low capacity/throughput of slaughter houses (less than 10 animals per day)

HIDE QUALITY

- Uneducated butchers
- No proper flaying techniques
- Low quality hides; too many hides wasted

PRICE/GRADING

- 90% of the revenue comes from the meat. Hide is considered as a by-product, and therefore, of less importance
- No premium for high quality hides
- No formal system for grading hides

ENVIRONMENT

- Poor environmental measures – they discharge in swamps and lakes

5.3 Hides and Skins Collection

In the absence of a reasonable number of formal/ designated hide collection centres and guidelines on grading or a hide grading system, tanneries bear the brunt of problems of collecting hides, including mobilizing funds for collection and also procuring the hides from abattoirs, to guarantee operational efficiency of factories.

In practice, the Tanneries recruit Agents to collect hides and skins from abattoirs and other slaughter-houses. The Agents, however, have limited coverage of a country's slaughter premises, and tend to focus only on modern abattoirs and urban slaughter slabs, because of their proximity to the Tanneries. Hides from family slaughtering and village markets are often wasted, because the households are dispersed and at great distances from the tanneries – hides from family slaughtering and villages markets are often few and therefore, do not warrant collection. The long distance between the village markets and households from the tanneries, disenchants collection, by the Agents.

Furthermore, the Agents do not regard hide collection as a business, rather, they act for and on behalf of the tanneries, although they are not directly remunerated by the Tanneries. Tanneries, finance/ provide funds upfront to the Agents, to mobilize and also buy the hides and skins from abattoirs and other economical collection centres. Trade in hides and skins, independent of the Tanneries, is gradually gaining scale, as illustrated in Box 4.

Box 4: Trade in Hides and Skins (Kampala City Abattoir)

There are 25 individuals who trade in hides and skins at the Kampala City Abattoir. At this Abattoir, trade in hides and skins started about two decades ago (1990s), following a huge demand/boom in export of raw hides and skins to Asia (China). However, in 2001, Government placed a ban on export of raw hides and skins. Since then (post 2005), trade in hides and skins has been modest, and often inconsistent. As such, hides and skins businessmen in peri-urban areas (that supply through the City Abattoir) only trade when the prices are reasonable (see sections below on prices). Also, the high volatility of prices, forces several traders to sell the hides and skins fresh (non-cured/salted). In the period 2009 to 2016, traders that had stocked up tons of hides, made huge losses, at the time of sale, after a sharp drop in prices (by over 50 percent), fluctuating a period of less than a month.

In the team of 25, there are two (2) traders, who deal directly with the tanneries. The other 23, trade/sell their hides and skins, through the two traders. In essence, there are two traders who hold contracts with the tanneries. This structure makes economic sense, given the modest volumes of hides and skins collected, by individual traders. And the long distance from the City Abattoir to the tanneries (3 to 7 hours), dictates that only those traders with reasonable volumes, and good financial credentials, can supply the tanneries, some of which are located between 40 and 70 km from the abattoir.

The 25 individuals buy hides and skins upfront, from butchers. The butchers buy the animals from animal traders (within the abattoir). The butchers hold several contracts, to supply institutions (universities, the Police Force, the Army) and large and small butcheries, within the City Center (Kampala and its suburbs). Individuals who trade in hides and skins book them, by making an advance payment to the butcher. However, this practice has had its fair share of challenges – some butchers have closed business, or cut down on the number of animals they slaughter, on a daily, even after agreeing to supply specified number of hides and skins to traders. Often, butchers close business or significantly cut down on the number of animals they slaughter in a period, following an inordinately delay in payment, from the institutions they are contracted to supply. Between 300 and 600 hides and skins are traded daily. On a bad day, however, over 80 percent of the hides and skins flayed, could be damaged (with deep cuts). On a very good day, between 10 and 20 percent of the hides and skins, could be damaged.

Source: KILs (2018)

There is an urgent need to set up a formal and better organized collection system, including depots or sheltered collection points to properly store hides, given the distance of collection and selling points from villages and cattle areas. This is key, and it will complement Partner States' efforts to increase hide utilization by local tanneries.

A summary of key issues constraining the delivery of high-quality hides and skins at hide collection is presented below.

MAIN ISSUES RELATED TO HIDE COLLECTION	
HIDE QUALITY	• Poor storage and preservation techniques and infrastructure • Grading system is not in place • No premium for high quality hides
COLLECTION SYSTEM	• Lack of enough depots and sheltered collection points • Selling points – mainly abattoirs • Transport is expensive and not frequent in remote areas
PRICE	• Abattoirs have a pricing structure, where the hide is part of the slaughtering fee
FINANCE	• Contracting agents is still problematic

5.4 Tanneries

Presently, there is limited capacity for extensive processing of hides and skins production across the region. Despite the huge raw material base (188.1million livestock), all the EAC Partner States are currently processing leather up to wet blue stage, which is considered a raw product in international trade. The transformation to finished leather or crust is minimal, estimated at between 5 to 10 percent. Between 80 and 90 percent of the wet blue leather is exported; only 10 percent remains for processing to finished leather, which caters for footwear and artisanal shoe makers. This structural weakness has a historical context. The EAC leather industry was established as an export-based industry of semi-processed raw hides and skins with no consideration

given to linking it to the development of a finished leather and leather products industry. Thus, there are minimal incentives for the development of technical training skills and for obtaining access to new technologies for leather products.

The number of tanneries that operate in the Kenya region has fluctuated over the past decades. Today, the EAC region, boasts slightly over 30 operational tanneries (of varying size and capacity), compared to less than 20, a decade ago. Tanneries, however, mostly operate at 40-60 percent capacity because of the inconsistent supply of raw materials, financial constraints, undiversified markets and machine breakdowns, among others.

Table 9: Status of Tanneries in the EAC Region

Country	Tanneries (Operational)	Installed Capacity (pcs)	Utilized Capacity (pcs)	Output of the Industry		
				Wet Blue -pcs	Crust - pcs	Leather- pcs
Kenya	15	Hides: 3.3 mil Skins: 6.3 mil	60% utilization	Hides: 1.1 mill Skins: 1.3 mill	Hides: 0.3 mil Skins: 0.4 mil	Hides: 0.5mil Skins: 0.24 mil
Uganda	10	Hides: 0.001 mil Skins: 0.005 mil	40% utilization	Hides: 0.043 mil	-	Hides: 0.003 mil
Rwanda	1	Hides: 0.0002 mil Skins: 0.004 mil	Factory temporarily shut down	Hides: 0.00015 mil Skins: 0.003 mil	No readily available data	1120 Sqft skins 560 Sqft hides
Tanzania	6	Hides: 4.7 mil Skins: 12.82 mil	20% utilization	Hides: 2.1 mill Skins: 6.3 mill	Hides: 0.1 mil Skins: 0.1 mil	Hides: 0.05 mil Skins: 0.05 mil

Source: <http://www.intracen.org/leatherline-portal/african-platform>

Since tanneries tend to be heavy polluters (See Box 5), they need to invest in costly environmental mitigation measures, making their initial investment prohibitive. In Tanzania, Kenya and Uganda, however, this problem is exacerbated, by the poor coordination between the National Environment Management Authority (NEMA) and Investment Promotion Agencies/Authority (IPA). Investing in the leather industry in Uganda, for example, is very costly, largely because, there is no gazetted area for the establishment of tanneries, which would enable the tanneries share effluent treatment facilities, and reduce on environment mitigation costs. NEMA officers have technical knowledge to deal with this issue, however, the officers tend to act as policemen rather than advisors to the industry.

There is a need for the leather industry to have good laboratories to test effluent against residues and determine the correct protocols for treating hides to

good leather. Currently, the Leather Industry cannot test tensile strength, flexibility and therefore cannot track export differentiated products. On the other hand, the Leather Industries Association are advocating for the development of leather industry skills, given the significant improvements in the livestock industry.

Box 5: Tannery waste along the Lake Victoria Basin

1kg of wet blue, needs 40 liters of water to process. Since 1000 tonnes of wet blue are processed per day, in Jinja, 40 million liters of water are used, all drawn from the lake, and returned, without much treatment. Further, 7,500 pieces of hides, each measuring above 14kg, are tanned daily, in Jinja. From each hide, 5kg of solid waste are produced or 35,000kg of waste, from all hides tanned. 7,500 pieces produce 200,000 sqft of wet blue per day, to produce 5 million tonnes of waste per day or month.

MAIN ISSUES RELATED TO TANNING

HIDE QUALITY

- Poor quality of hides going for tanning, in some cases up to 30% of what is bought is not usable

COLLECTION

- No collection system capable to deliver required quantity and quality of hides

PROCESSING

- Outdated machines and bad maintenance due to lack of working capital
- Low capacity utilization due to lack of raw materials and working capital
- High prices of inputs (e.g. chemicals, salt) which are mainly imported
- Disruption of production due to erratic supply of electricity and water

PRICE

- No grading structure for raw hides and skins (tanners are forced to buy per Kilo)
- Tanners are not paying premium prices for better quality hides

COMPETITIVENESS

- Inadequate market information and Government support to compete at international level

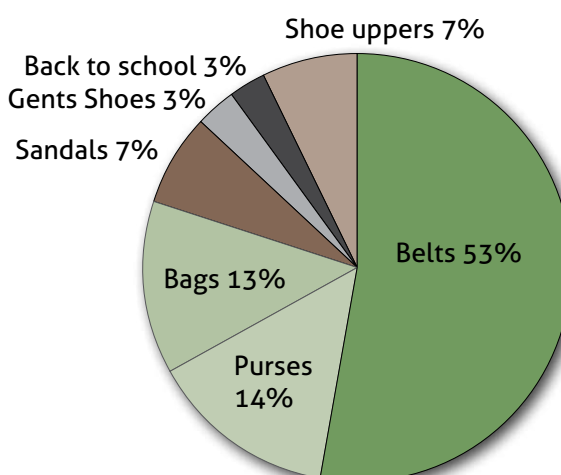
FINANCE

- Low working capital
- Lack of affordable finance and shortage of liquidity to pay raw materials
- Lack of capital to rejuvenate and upgrade machines and equipment

5.5 Leather Products

Figure 15 presents the number of SMEs, in the production of common leather goods in the region. From the Fig, the majority SMEs are involved in the production of belts (53 percent), followed by purses and bags. SMEs engaged in the manufacture of shoes (gent shoes, back to school shoes and shoe uppers), constitute 13 percent. A fewer number is engaged in the production of shoes, because of the high capital requirement for procuring shoe production/manufacturing equipment (USD 50,000, at a minimum), compared to other products like belts and purses (less than USD 5,000).

Figure 15: SMEs Engaged in the Production of Leather Goods in the EAC

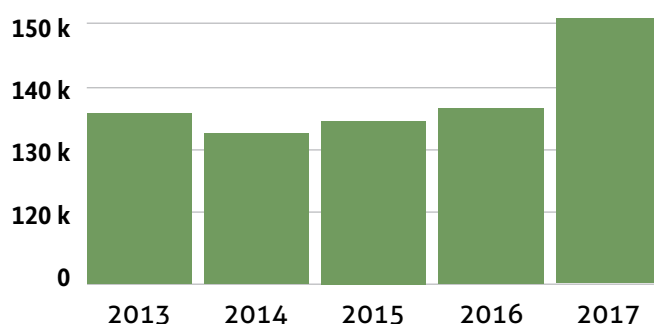


Source: Survey of SMEs Engaged in the Production of Leather Goods (2018)

Presently, the EAC region has an annual manufacturing capacity of about 6 million pairs of leather shoes. According to UNIDO, the per capita shoe consumption in the EAC is estimated at 0.85, which implies that the actual demand is about 131 million pairs per year. The current production capacity, therefore, leaves a deficit of 125 million pairs per annum. This demonstrates the need to develop and promote the growth of the footwear industry, since it is central to the expansion and diversification of the products from the leather sector. The capacity of the population to afford high quality locally made leather shoes, is promising, as illustrated below. On annual basis, a modest income earner (USD 100 - 200 per month), buys at least four synthetic shoes, because they are more affordable (each at about USD 4), individually. This adds up to USD 16 per annum, which is the cost of a good locally made leather shoe that can last longer than 2 years.

Over the past decades, an influx of cheap synthetic shoes and second-hand products on the market, has deterred investment in footwear manufacture (See Figure 16). The ready availability of locally produced finished leather, and in sustainable quantities, is another constraint.

Figure 16: Imports of Footwear (leather and non-leather)



Source: COMTRADE (2018)

The other limitation to the ready availability of locally made finished leather, is the low demand for locally produced footwear, given the huge influx of second-hand shoes in the region. Indeed, a higher preference for second-hand shoes and imports from China is borne from the fact that these products appeal to the market (they are cheap), and these products that have been on the market longest. New footwear is rare, lest for traditional school shoes (Bata). Furthermore, the fashion industry in the region is not developed, customers have minimal knowledge of ongoing designs and fashion, they look at the cost of the products and not the quality.

The cost of production at Rada shoes: The cost of a shoe, is largely dictated by the cost of leather and the sole. The cost of leather remains high, which

affects the final price of the factory shoes, (making them less competitive), and yet their quality cannot compete with the superior European finished leather that are imported into the country, as either used or new shoes. For example, the cost of materials for a finished school shoe is around US\$8.5, yet a used shoe would cost between US\$10 and 12 more over imported. The same shoe made from synthetic from Asia (China, India or Thailand), is sold at half the price (about US\$6). The market is further distorted by the thermoplastic shoes (especially women) which are sold at less than US\$2.

The cost of machinery: A good toe lasting machine costs USD 20,000, while a good heel lasting machine costs USD 15,000. The cost of these machines is clearly out of range for survivalists SMEs that teem downstream industries. As highlighted above, the modest working capital of SMEs, can only afford the low quality leather from tanneries, as the good grades are usually exported thus impacting their ability to produce good quality shoes. If grouped into clusters, SMEs can access capital of up to USD 100,000, which can facilitate production of 200,000 to 500,000 shoes per year, employing over 100 workers.

Accessories/components: Absence of footwear components, especially high-quality soles, that can compete with imported used or new shoes (for high end market). Other components such as buckles, shoeless, texon, toe puff, shoe tacks are all imported, making the price of the final shoe expensive (on top of expensive leather). The open East African market (except Rwanda) which accepts all forms of imports, has distorted the market for local manufacturers. Most imported shoes are in 'disposable form' and would not last a year. With low levels of incomes, most nationals prefer to buy them.

Lack of leather technology and design capabilities: The development of leather and leather products, is hindered by a lack of adequate skills and ability to continuously innovate new designs congruent with market demands. The Jua Kali footwear producers need to be skilled and trained in modern leather processing techniques. Most of the centres we have, operate on very old technologies (TCFC – Uganda, TCPSI – Kenya and DIT - Tanzania), which cannot match the demand of the fast fashion industry like footwear. It is for this reason that there is a preference for imported footwear. There is therefore, an urgent need to upgrade the above centres and also comprehensively enhance their capacity. The region needs at least five fully equipped and modern leather technology and design centres, to train up to 1,000 footwear entrepreneurs per year, to meet half of the annual demand for footwear in the region. Another issue is related to the poorly tanned leather sold to



SMEs. The production of high leather shoes and other leather products requires special types of leather, since leather for a particular product is tanned differently, to suit the aesthetics of that product. It is plausible; the leather supplied to the cottage industry (by local tanneries) might not be of the right quality/strength, for the products they produce/manufacture.

MAIN ISSUES RELATED TO MANUFACTURING

PROCESSING CAPACITY

- Low capacity utilization mainly due to unavailability of finished leather and difficulty to export
- High cost of electricity
- High cost of finished leather which is sold at international prices

MARKETING INFORMATION

- Poor dissemination of market information by support agencies
- Low market research capabilities. Most of the manufacturing enterprises are SMEs
- Lack of information on statistics and industry baseline figures

QUALITY AND DESIGN

- Quality of available finished leather is inconsistent and forces manufacturers to import
- Lack of a range of accessories and availability of design
- Leather goods manufacturers are struggling to compete domestically with cheap imports and second hand goods
- Lack of trained and skilled staff to improve design and manufacture efficiently
- No product development skills and low ability to create innovative designs/insufficient training for designs
- Poor design
- EAC leather shoes not competitive due to low quality leather and high cost of imported raw materials
- Lack of diversification

6 INVESTMENT GAP (ESTIMATE OF INVESTMENT NEEDED)



Strategically, the entire value leather value chain needs a boost in availability of competitively priced funds. From the upstream side, there is a greater need for investment funds towards modernization of slaughter houses and collection centres for hides and skins. The downstream section also requires easy access to investment funds, to expand/increase the number of factories/plants that process wet-blue into finished leather and subsequently, the number of footwear and leather artifacts' manufacturers, to adequately utilize the finished leather.

6.1 Upstream Investment Gap/Strategy

From the upstream side, investment is required for the modernization of slaughter houses and establishment of collection centres. The table below shows indicative investment values for modernizing 30 slaughter houses (piloted) with pneumatic platform de-hiders and hiders, and the construction/modernizing (cementing) 30 collection centres.

Investment	Amount (US \$)	Number of Units	Total Investment (US \$)
Modernizing slaughter house	100,000	30	3,000,000
Renovating and Modernizing a Collection centers	30,000	30	900,000
Training, capacity building and certification of flayers	1,000 (includes travel and training and certification fee)	3,000 (500 flayers per Partner State)	3,000,000
Total			6,900,000

The following assumptions are made:

- For a start, 30 slaughter houses are modernized, across the region as indicated below: (i) Tanzania – 9 slaughter houses, (ii) Kenya – 8 slaughter houses, (iii) Uganda – 5 slaughter houses, (iv) South Sudan – 4 slaughter houses (iv) Rwanda – 2 slaughter houses, and (v) Burundi – 2 slaughter houses (The allocation was based on livestock population in each Partner State)
- For a start, 30 collection centres are modernized, across the region as indicated in note (a) above;
- 500 flayers (Trainers of Trainers) will be trained from each Partner State, on annual basis.

6.2 Downstream Investment Gap/Strategy (a case example of industrial shoes)

The main objective is to increase footwear production, for domestic market coverage and exports, thereby narrowing trade deficit and creating employment in the footwear sector. As illustrated in the Table below, the EAC Region consumed close to 80 million pairs of shoes annually, of which 78 percent (59.9 million) are imported.

In 2018, it was estimated that a potential production value loss of close to US\$ 1.2 billion was due to imports. The potential retail value loss was estimated at US\$ 4.7 billion. Jobs outsourced due to importation of footwear in 2018 were estimated at 56,157 (See Table below for more details). **This suggests that in a ten-year period, over 500,000 jobs would be outsourced due to importation, if the current situation were to prevail.**

Footwear Parameters (2018)	Kenya	Tanzania	Uganda	Rwanda	Burundi	Total (EAC Region)
Pairs Consumed Annually (Millions)	35	23.5	12.7	4.2	1.5	76.9
Pairs Imported Annually (Millions)	27.3	18.4	9.9	3.3	1.2	59.9
Potential Production Value Loss Due to Imports (\$20/Pair) - Millions	\$ 530	\$356.34	\$ 191.70	\$ 63.15	\$ 22.6	\$ 1,163.74
Potential Retail Value Loss Due to Imports (\$80/Pair) - Billions	\$ 2.12	\$1.43	0.8	0.3	0.1	\$ 4.65
Jobs Created for every additional 1 Million Pairs Produced	1,000	672	361.7	119.1	42.6	2195.7
Jobs Outsourced Due to Importation of Footwear	26,500	17,817	9,585	1,128	1128	56,157

Source: National Stakeholder Consultations (2018) for the Development of the EAC Leather and Leather Products Strategy

The region requires at least six fully equipped and modern leather technology and design centres, to train up to 1,000 footwear entrepreneurs per year in order to meet half of the annual demand for footwear in the region. Producing quality footwear for oil companies, factories, military and paramilitary organizations and schools would be a good entry point to developing footwear capacity in the region and contributing towards the development of the economy and boosting the efficiency and overall productivity of these entities.

The table below, shows indicative investment values for investing in six fully equipped and modern design centres/studio (one in each of the six Partner States), to enhance the capacity in the areas of design, forecasting, product innovation and development. The design studios will support the manufacturing clusters through design consultancy, product development and a range of other services based on trend forecasting, and design interpretations, amongst others.

Investment	Amount in US \$	Number of Units	Total Investment (US \$)
Fully equipped modern design center/studio	350,000	6	2,100,000
Total			2,100,000

A case example of Industrial shoes

The EAC region has a monthly demand of approximately 600,000 pairs of industrial shoes (security, safety, industry), however, current production is only approximately 60,000 shoes per month. The Region requires 2.5 million sqft of finished leather per month, to meet the current demand for industrial shoes. Current production of finished leather, however, is less than 100,000 sqft per month. 60 shoe factories are required to meet the regional demand of 600,000 pair of shoes per month – only processing wet blue into finished leather (and later manufacture the shoes), and employ over 1000 people.

The table below shows indicative investment values for factories that ONLY process wet blue into finished leather, along with an intricate unit for the manufacture of industrial shoes. Industry experts, estimate a medium sized plant that processes wet blue into finished leather, along with detailed unit for the manufacture of industrial shoes, at US\$ 300,000.

Investment	Amount in US \$	Number of Units	Total Investment (US \$)
Tannery (wet blue to finished leather, with shoe production unit)	300,000	60	18,000,000
Working capital (initial) for buying wet blue and other accessories	50,000	60	3,000,000
Total			21,000,000

The factories will be located across the region, depending on the demand in individual Partner States, as indicated below: (i)Kenya – 25 Units (ii)Tanzania – 15 Units, (iii) Uganda – 10 Units, (iv) Rwanda – 5 Units, (v) Burundi – 3 Units and (vi) South Sudan – 2 Units.



7 SWOT ANALYSIS

STRENGTHS • Partner States have instituted comprehensive Leather Value Chain Strategies (all post 2015) • Abundant livestock • A reasonably high off-take rate of 20% (higher than SADC and COMESA) • Availability of quality of hides and skins prevails in the region • Each EAC Partner States has a comparative advantage in at least in one segment of the leather value chain be it production of hides & skins, production of semi-finished products as well as making of the various leather goods products • A number of functioning tanneries • Growing intra-regional trade in leather products (1.5% in the period 2013 to 2017) • Creative and resilient workforce • Growing support and commitment from COMESA LLPI to individual Partner States and the EAC region	WEAKNESSES • Poor animal husbandry practices (few extension services and high cost of inputs) • Low quality hides & skins due to diseases, branding and scratches • Low awareness for the value of hides/skins among general population (minimal attention paid to hide quality because hides have a low economic value) • Poor slaughtering practices; bad flaying techniques • Low capacity/throughput of slaughter houses • Poor grading/Lack of quality standards • Poor environmental and effluent disposal in Tanneries • Underutilization of installed capacity (20-60%) • Poor finishing due to lack of machinery • Lack of quality finished leather available locally • Few skilled artisans and training programs • Lack of access to affordable finance for funding investment and R&D • Unfriendly business climate - Electricity /Tariffs • Low product diversification • Unreliable logistics
OPPORTUNITIES • Huge potential to capture 85% of value that is presently leaked through the export of wet blue • Major global shift in leather and leather products production, with a resetting of competitive advantage from Europe to Asia (and within Asia from East Asia to South Asia), and with focus now turning to Africa (East Africa) • With labor costs increasing in China and elsewhere, Africa remains one of the most affordable developing regions for low-cost production • The potential market for shoe industry stands at about 131million shoes per year and growing • Rising middle class • Increasing Government support • Strengthening trade among EAC • Huge potential for the production of industrial products from gelatin and other waste from the production of wet blue • By stimulating demand for footwear, EAC Partner States can absorb all the available hides and skins, which mean there would be no excess left for export of either raw hides or wet-blue or crust or finished leather	THREATS • The leather industry is drastically fragmented (Lack of communication, collaboration, and knowledge sharing among industry stakeholders) • Smuggling through other border countries such as DRC and Southern Sudan • Underdeveloped artisanal leather and leather products industry • Highly dependent on imported second-hand shoes and low priced imported synthetic shoes • Under-developed formal footwear manufacturing industry • High risks associated with a mono-product driven export industry • Stiff competition from synthetic material - due to lack of labeling requirements and products deceptively branded as leather • Low awareness and lack of enforcement of existing standards on leather industry value chains • VAT charge on raw material for manufacture of leather products



8 THE EAC LEATHER AND LEATHER PRODUCTS STRATEGY

8.1 The Mission and Vision of the Regional Strategy

8.1.1 The Vision:

The Vision of the Strategy is: ***"An integrated and globally competitive leather and leather products industry"***.

8.1.2 The Mission:

The Mission of the Strategy is: "To provide a conducive business environment for growth in investment at ALL levels of the value chain, technology transfer, skills acquisition (knowledge sharing and training), and the development of enabling infrastructure".

8.1.3 The Overall Objective of the Regional Strategy

The overall objective of the Strategy is: "to transform and develop the EAC leather and leather products value chain, in order to enhance the supply of high-quality hides and skins, improve value addition and growth in domestic consumption and export of leather products.

8.1.4 Strategic Objectives

- i. Improve and modernize livestock husbandry practices for sustainable supply of renewable resource for downstream industries.
- ii. Improve/modernize processing infrastructure to guarantee the provision of high quality and quantity of hides & skins and preserve the critical raw materials for domestic value addition.
- iii. Facilitate increased investment in integrated tannery and management of tannery wastes and by-products.
- iv. Develop footwear manufacturing capacities and downstream leather goods industries, to increase footwear and leather goods production for domestic and export markets.
- v. Enhance productivity of small-scale producers (SMEs) of footwear manufacturers and other leather goods producers, to raise their export capabilities and contribute to employment and poverty reduction.
- vi. Develop skills, technology and R&D capabilities in order to improve competitiveness and innovation in the sector.

vation in the sector.

- vii. Strengthening governance, policy, regulatory systems, institutional coordination mechanism and supporting services for a conducive business environment.

8.1.5 Development Outcomes/Targets for the Sector (10 Year Timeline)

- (i) Improve capture and retention of the intrinsic value of the sector from the current 15 percent to more than 50 percent by 2029.
- (ii) Increase intra-EAC trade in leather and leather products, from the current 1.5 percent to 10 percent by 2029.
- (iii) Increase GDP contribution from the current 0.28 percent to 4-5 percent by 2029.
- (iv) Exports to the global market to grow at CAGR of 22.4 percent, from the current US\$ 131.2 million to US\$ 1 billion by 2029.
- (v) Creation of employment opportunities along the value chain, to the tune of 500,000 direct jobs, at the end of 2029.
- (vi) 2,000 SME entrepreneurs trained and 10 footwear and leather products clusters established in each Partner State, per annum.

8.2 Description of the Strategic Objectives

Strategic Objective One: *Improve and modernize livestock husbandry practices for sustainable supply of renewable resource for downstream industries.*

This Strategic Objective comprises ONE program activity, aimed at improving and also regulating the supply side of the leather and leather products value chain. The program activity, seeks to improve and also enhance the production of high-quality hides and skins at the field/farm-level, through the revival of extension services (farmer training) and awareness raising on the economic benefits of good animal husbandry practices, amongst others activities.

On the next page is a description of the program activity.

Program Activity One: *Enhancing the quality and regulatory systems for livestock management to ensure sustainable production and supply of high-quality hides and skins along the value chain.*

Below are areas of focus of this program activity:

(i) *Improvement of breeding practices and animal health care for high quality hides and skins:* Scientifically, the quality of breeds, the breeding program (inbreeding Vs. Artificial Insemination), the length and size of the horns (Ankole Long Cattle, for example) and the nutrition of the animals are crucial, in the sustainable production of high-quality hides. For this reason, this activity has been designed to improve and harmonize breeding and animal health care practices, to ensure uniform production of high-quality hides and skins across the EAC Region. Sub-activities will include promotion of Artificial Insemination, development of guidelines and a framework on feeding and nutrition of livestock; and training of farmers (particularly pastoralists) in good breeding, feeding and animal health practices, amongst others.

(ii) *Introduction of regional guidelines/regulation on defect-free branding and tagging techniques and create awareness among livestock pastoralist:* In all Partner States, branding of animals, using brandmarks, has been, and continues intractable, in the production of high quality hides and skins. Presently, close to 50 percent of animals slaughtered in Tanzania and Kenya, are blood-branded/marked. This strategic activity has been designed to systematically phase out this practice. Smarter branding techniques like the use of a micro-chip, will be promoted among farmers, to replace blood marks/branding. New technology allows the animal to swallow the chip, for tracking. Alternative practices, such as tagging the animal, in places that do not damage the core area of the hide/skin, will be promoted. Focusing on pastoralist communities, national and regional sensitization workshops will be conducted, on quality improvement for hides and skins, using the new tracking technology. It is envisaged that this activity will be undertaken in phases, plausibly, over 10 years, as farmers appreciate the need to embrace newer and smarter technology in branding animals. In summary, every Partner State, will be required to institute Regional Guidelines/Regulations on defect-free branding and techniques.

(iii) *Promotion and strengthening of private sector led provision of extension services to complement the public service:* Extension workers are change

management agents, and therefore, need to be trained in a particular industry, if they are to understand and share in the norms of that industry. In all Partner States, however, provision of extension services, in the production of high quality hides and skins, has clearly lost momentum. The fledgling extension service is understaffed, with less than five leather development officers/technologists, in each Partner State. Private veterinary officers (vets) have taken on the role of the MDAs in the provision of extension services. The challenge, however, is that private vets, tend to overlook diseases that are latent to the quality of hides and skins. For example, tick management is often overlooked, because ticks would not substantially affect the quantity and quality of the meat. Private vets are not keen on issues outside the service the farmers seek – it is commercial! What the farmer seeks, is what is provided. Consequently, a good number of animals slaughtered today, display a mediocre quality of hides or skins. This strategic activity, therefore, seeks to encourage all Partner States to promote and strengthen the provision of private sector-led extension services, particularly in the promotion of value of hides and skins.

(iv) *Introduce Guidelines/Regulations on Animals Welfare during transportation and overall handling (cruelty):* Storage and transportation methods for animals, also all play a key role in the quality and value of the hides and skins available. When animals are not slaughtered at the point of sale, transporting can damage the hide or skin. For example, transporting animals from Dodoma to Dar-es-Salaam or Mandela to Nairobi, can lead to damage of the skin/hide, animals fight in the trucks, or a pin or nail, in the truck, can harm the hide/skins. This strategic activity notes the importance of animal welfare in livestock productivity and, as such, sets out a number of proposals that will ensure that animals are transported, slaughtered and handled in humane ways. Notable, are awareness/sensitization campaigns on the acceptable methods for the transportation of animals and also, putting in place/enforcing measures at Partner State Level, on the welfare of animals (Tanzania has the Animal Welfare Advisory Council, in addition to enforcing instant penalties for cases of animal cruelty)

(v) *Institute a Mechanism to curb smuggling:* The activity proposes the establishment of an inter-agency monitoring mechanism comprising ports, customs, and hides and skins authorities, to monitor and track the smuggling of hides and skins within and outside EAC region and the development of a regional regulation on trade in

hides and skins. The appointment of a national regulator of hides & skins and the leather sector will also contribute to the curbing of smuggling.

Strategic Objective Two: *Improve/modernize processing infrastructure to guarantee the provision of high quality and quantity of hides & skins and preserve the critical raw materials for domestic value addition.*

Presently, close to 60 percent of damages to the hides and skins occur during the slaughtering process. These damages are avoidable, if appropriate measures are implemented, as discussed in the Program Activities below:

Program Activity One: *Modernization and strengthening of the infrastructure and supply chain for hides and Skin collection and storage.*

Many producers in EAC region only sell their livestock when they need the money or when a drought hits. As a result, most farmers do not consider the livestock trade as a profitable endeavour and ignore husbandry practices that could increase their livestock's market value, such as providing adequate and proper nourishment during the years of growth and development, prevention of scarring, the timing of sale designed to maximize sales price is not considered. Large numbers of animals are held for five to seven years or more, to supply draught power and milk for the family in the highland areas. These old animals do not produce the best meat and their hides are usually so worn that they have limited value to the leather industry.

This program activity, aims to improve the collection and storage of hides and skins by the modernizing/renovating of current facilities, or the building of new and improved salting and collection facilities, through PPP, as well as strengthening the supply chains for hides and skins. Currently, hides and skins collection systems differ in individual Partner States, from: (i) the direct sale of non-cured raw hides and skins, to tanneries or selling points located more than 5 hours away from the point of slaughter, to (ii) the storage of "cured" hides and skins, in temporary wooden units/structures, with a mud floor. At a minimum, hides and skins should be stored on a cemented floor. Such reforms will be championed through cooperatives/associations of hides and skins traders, to modernize and/or build new structures (hide collection centres), from which hides and skins can be centrally traded.

The sections below present the areas of focus of this program activity:

(i) Introduction of policies to regulate and dramat-

ically reduce the formal and informal export of live animals, while simultaneously taking steps to encourage and develop approaches to steer these animals into the value-added channels of meat, and Hides and Skins production. Doing so will alleviate much of the shortage of hides and skins on the market, whilst encouraging more robust meat processing and hides, skin and leather industries. This will also add more jobs to the communities and tax revenue to the government's coffers;

(ii) Development of live animal auctions markets, to improve the transparency of the market, facilitate the creation of a grading system and improve pricing signals for both producers and traders. Other advantages to a live animal auction, would be that the problem of unlicensed middlemen would be mitigated further as more live animals end up through the auction rather than the 'brokerage' system;

(iii) Strengthening backward linkages within the value chain, particularly from abattoir back to the feed-lots and farmers, which would not only support increased meat production, designed to meet growing market demand, but would also provide more hides and skins into the resource-constrained Hides and Skins value chain. This could involve the government providing tax incentives for abattoirs, to directly connect with and/or invest in feed-lots and commercial farming operations.

(iv) Strengthening the Capacity of Rural Slaughter Slabs Operators and local government's agencies capacity to monitor and regulate these facilities as a way to reduce defects and improve the quality of hides and skins generated from the villages. The operators in rural slaughter slabs produce a sizable volume of hides and skins, second to the individual household. These operators use poorly equipped slaughter points, where the infrastructure is sometimes a slab of concrete, under a shade or using poles for hoisting carcasses. These operators are usually located in small towns, adjacent to butcherries in various trading centres. Such facilities are scattered in rural towns and often without adequate supervision. The tools used in these facilities are usually rudimentary and of inferior quality, causing damage to the hides and skins during flaying/slaughter. In many cases, running water is not available and hides are not watered off after slaughter. The rural slaughter slabs will be organized into formal entities, via cooperative and facilitated to form association. Training pro-

grammes will be developed and implemented among duly registered cooperatives or associations.

- (v) **Conduction of regional assessment of capacities, trade and marketing of strategies of H&S collection enterprises to guide the development/improvements of H&S Collection systems and Infrastructure:** As a first step, this activity will work with Private Sector Apex Leather Associations and relevant institutions, to take an inventory of the number of collection centres in each Partner State, and their current and projected annual storage/production capacity volumes. The second step, would be to assess infrastructure needs in each livestock (cattle, goats and sheep) production area/pastoralist communities, to guide in the design of engineering works for setting up a central market for hides and skins, with collection centres and other infrastructure.

- (vi) **Development of standards and guidelines for (renovate and/or build new) H&S collection and curing premises:** The third step would be to renovate or identify land for setting up harmonized (standardized for the EAC) hides and skins central market/s with collection centres and fund their construction, with all relevant infrastructure. The Associations of traders of hides and skins can manage the centres, in form of a PPP, for a modest fee, for maintenance.

- (vii) **Training of hides and skins handlers on Best Practices (through training and awareness-raising) on curing of hides and skins:** Current practices in curing are inapt, notably the repentant salting. As highlighted in Section 3.2, salt that is shaken from hides, is reused. This leads to faster **putrefaction**, because bacteria which are tolerant to salt (survive salting), are transferred to fresh hides. These practices need to be replaced with good curing practices, embraced in harmony, in all Partner States.

- (viii) **Establishment of national/regional hides and skins auctions market to promote transparency and information disclosure, with the aim of stabilizing hides and skins prices.** The auction is aimed at facilitating the exchange of information, services and payments, in the trade of hides and skins. This will include: (i) providing electronic catalogues, to put together what suppliers of hides and skins are offering, (ii) matching buyers (tanners) and suppliers through dynamic trading processes or an electronic auction, and (iii) facilitating the closing of transactions through financial and logistics services.

- (ix) **Support to the establishment of databases and effective Information Management and Dissemination Systems (for trade in hides and skins and other leather products)** for all actors in the value chains. This will facilitate trade, enhance traceability, promote synergies and collaboration and as well as monitoring the development and progress in the sector. This activity will also seek to establish a national leather database and market intelligence system. A comprehensive national leather market survey, will be conducted in each of the Partner States (establishment of baseline values, identification of (local) market opportunities), to facilitate the development of a database for hides and skins, and leather industries in order to enhance traceability and enabling value chain actors to take informed decisions.

Program Activity Two: Modernize the operations of slaughter slabs/houses and abattoirs.

The goal of this program activity is to modernize existing slaughterhouses/abattoirs, and also build the capacity of staff in requisite skills such as flaying and grading. Some of the funds collected from the export levy on raw hides and skins, should be used to renovate or construct modern slaughterhouses, at least in all major cities and towns.

The sections below present the areas of focus of this program activity:

- (i) **Development and modernization of quality Infrastructure in abattoirs and slaughter houses:** There is a critical lack of modernity and technology adoption at all slaughter slabs, houses and abattoirs. Hoisting facilities are lacking in several slaughter houses. Often, after animals are slaughtered, they are pulled on the ground (rough ground), which bruises and reduces the quality of the hide and skins. There is an urgent need to modernize, therefore, this activity espouses for the adoption of new technology and modern infrastructure in all abattoirs and slaughter houses (peri-urban, urban and rural), including the installation of a pneumatic lifting platform de-hiders and de-hiders, able to hoist more than 20 animals per hour.
- (ii) **Review and harmonization of regulations governing slaughterhouse/abattoirs and strengthen capacity to compliance with existing standards of practice:** Practices in slaughter houses, need to improve – penalties should be designed and imposed on slaughter houses that do not adhere to the standards set in the production of high-quality hides and skins, particularly after training. For example, a slaughter house that

produces, 50 percentage of defects (deep cuts, holes, from poor flaying) should be fined (or its license should be revoked), if it has benefited from training, and also provided with flaying equipment. An alternative penalty, is to attach the value of meat to the quality of the hide. For example, in a phased approach, butchers (or animal traders) should encourage farmers to produce animals with higher quality hides, since the farmers are dependent on the traders, to off-load their stock. So, the traders should state terms, for the progressive production of high-quality hides. For every 10 cattle sold, at least 2 should be free of defects. In the subsequent sales (for example, after 6 months), the number of animals, with defect free hides, should be increased.

(iii) Strengthening the capacity and provision of slaughter house inspection services: The region lacks an adequate number of qualified veterinary doctors specialized in management of hides and skins at slaughterhouses, to inspect and certify hides and skins (perform anti-mortem and post-mortem examination). For example, there is only one livestock extension worker, inspecting four slaughter houses in the Dagoretti complex in Kenya. Sadly, there is no funding for capacity building projects for slaughter houses, on good flaying practices and other standards, requisite in the production of high-quality hides and skins. This activity espouses the reinvigoration of extension services to slaughter houses and abattoirs.

(iv) Development and improvement of capacity of flaying technicians and technology and practices: Conspicuous cuts from flaying are a perennial challenge, across the region. There is a need to promote the use of curved knife in flaying – a curved knife cannot pierce holes in hides and skins, as is the case with a sharp knife, which are commonly used in flaying. On the market, a curved knife costs about USD 50. Partner States could subsidize their cost to about USD 5 (off-setting USD 45, in subsidies, such that butchers, can afford), as is the case in Kenya. Poor ripping practices lead to shapeless hides.

Establishment/development of a harmonized quality certification scheme and an index for slaughterhouses to promote good practices for slaughtering. The index will appraise/score several parameters, including the different kinds of animals slaughtered, number of flayers' and their skill-sets, production capacity (and typical weight - tons of hides and skins/day) of the slaughter house, number of defects (on a daily basis), degree of automation at the facility, and effluent management, amongst others. In devel-

oping the index, all flayers/skinners will be required to register with the slaughter houses, on contracted terms. With the index, the slaughterhouses will have to guarantee production of high-quality hides and skins, to help curb defects. Similarly, traders in raw hides and skins, tanners and international leather businesses, should apply this index to the material coming from a particular slaughterhouse, to curb the defects. Eventually, the index will promote competition among slaughterhouses, to improve the quality of hides and skins produced. A competition award for best performing slaughter houses, will be put in place.

Strategic Objective Three: *Facilitate increased investment in integrated tannery and management of tannery wastes and by-products.*

The recent slump in global demand for wet blue, estimated at about 40 percent, is a window of opportunity for the EAC to further grow and sustainably enhance the competitiveness of downstream leather industries. There is **NOW** an assured source of raw materials. It is, therefore, prudent to maximize the value of the readily available resource. Accordingly, this strategic objective delineates four program activities, to enhance value addition and retention (through product diversification) at the tannery level.

Below are the program activities for this strategic objective.

Program Activity One: *Support the modernization, expansion and diversification of tanneries capacities - reinforce/establish Credit Guarantee Schemes to enhance technical capacity (including buying equipment) for product diversification:* Manufacturing of leather products is a strategic sub-sector for economic and industrial development of the EAC region. This primarily necessitates establishing a tanning sub-sector that is capable of producing high-grade finished leather, to feed the downstream industries. It is this network, the linkage between tanning and leather products industries, which is missing in all Partner States. In a leather sector, where the downstream industries are expanded, the prime role of the tanning sub-sector is to feed these industries.

The capacity of tanneries to process to finished high quality leather is, however, limited. Indeed, most tanneries were initially established with imported reconditioned equipment and there has been little subsequent investment in modern equipment and technology. Obsolete equipment, low levels of training, a badly organized workflow and a frequent lack of spare parts and chemicals, all contribute to low quality products and low levels of productivity.

Below is a description of the sub-activities under this program area:

(i) Establishment and promotion of a credit enhancement and guarantee scheme: To boost the technical capacity of tanneries (through the acquisition of requisite equipment for production of finished leather), this program activity will ease/relax the terms at which credit is sought (to enhance the access and affordability of finance). A credit enhancement and guarantee scheme will be used. In essence, tanneries would be venturing into a fledgling market, with several risks, including slow appreciation of local brands, and stiff competition from imported products. With a credit enhancement and guarantee scheme, several of these risks will be averted. The credit enhancement scheme could be introduced through regional development finance institutions, such as AfDB and EADB, with the aim of creating a facility to extend concessionary credit lines for upgrading and modernization of tanneries and footwear manufacturing capacity.

(ii) Promotion of partnership between domestic DFIs and international financing institution, to create/develop lines of credit and trade facilities targeting diversification. In order to broaden and also improve terms for limited resources available for trade finance, particularly among local banks that are willing to finance new products (production of finished leather), the banks need to be supported to mobilize reasonably priced lines of credit to support the supply chain. This activity will, therefore, support local banks, to partner with DFIs, to explore the commodity-linked, hedging and warehouse warrant receipt financing facility, to enable tanneries install and produce finished leather, at competitive prices (locally and internationally). The financing facility will also be offered to support essential imports of inputs (accessories and inputs like chemicals) for warehousing in the region, or at individual Partner State level. The local tanners could then buy the chemicals from the local warehouse, in small parcels, as their income suits. In essence, a national/regional approach will be explored, where one company/agency is mandated to procure/import these inputs (accessories and inputs like chemicals), tax-free, in bulk for onward supply to producers, to reduce transaction costs and benefit from economies of bulk purchase – this will be considered as a short-term measure. In the long-term, the region should be able to develop capacity to produce the essential accessories and inputs for the sector.

(iii) Set up a SPIV (Special Purpose Investment Vehicle) Facility to support investment in diversification, upgrading and modernization of existing facilities. An SPV is a company incorporated to undertake a specific transaction or series of transactions. A key feature of an SPV in a capital markets transaction (where the EAC will primarily mobilize funds), is that it is usually structured so that it is "bankruptcy remote". This means that the chances of the SPV becoming bankrupt are minimized; consequently, the SPV's credit position becomes something that is unlikely to cause the transaction to default. Preliminarily, it is proposed that the EAC mobilizes funds, through a corporate bond issuance with the SPV as the bond issuer and the lender of record to the existing training facilities, to upgrade and modernize. The primary advantage of using a bankruptcy remote SPV in a bond issuance, is that it enables the assets held by the SPV to be isolated from the credit risk of the other entities in the transaction. The SPV, therefore, acts as a credit neutral conduit or shell entity, housing the assets that determine the transaction value. Investors therefore, do not need to give significant attention to the credit worthiness of the SPV, but instead can spend their efforts analysing the credit risk of the underlying assets, the selection criteria for the underlying assets, the track record of the Servicer selecting the assets and the service providers to the transaction.

(iv) Assessment of the Feasibility of establishing Leather Development Funds, in ALL Partner State Level: This activity will explore the feasibility of establishing Leather Development Funds (LDF), in ALL Partner States, to help enhance access to affordable finance, through the provision of low interest rates to players along the value chain. The feasibility of establishing such a facility, will draw lessons from best practices including United Republic of Tanzania, which has been operating a LDF, for more than a decade. The source of LDF will include a share/percentage of levies and duties collected from the export of wet blue, hides and skins; and imports of leather goods and footwear into the region. Additional sources of fund can be mobilized from access tax collected from animals slaughtered, and a levy on imported footwear and leather goods – the levy will be set above the set CET rates for imported footwear and leather goods.

Program Activity Two: Inter-firm regional cooperation/collaboration in tanning and finishing (contract tanning and finishing): Long term solutions to address low capacity utilization in tanneries, require development of a commercialized livestock subsec-

tor, which supports the emergence of a robust meat supply industry. It would further assist abattoir and tannery processing, if Partner States discourage live animal exports; particularly sheep and goats. The low capacity utilization by tanneries, should be addressed in a step by step fashion, taking cognizance of disparities in Partner States. The following measures should be pursued:

- (i) **Organization and coordination efforts of industry actors to make use of established finishing capacity** in the region, through inter-tanneries trades of semi-finished leather which is currently minimal or non-existent. This will make tanneries operate at the very least, at a total output equitable to their finishing capacity and does not necessarily require new capital investments, but rather a coordinated effort. Once operating at collective finishing capacity, tanneries should be supported to invest in raising their finishing capacity so that it meets their current crust capacity levels, and eventually operate all tannery processes at full capacity.
- (ii) **Tanneries will be supported to exchange best practices in tannery waste management, through** study tours of those with an exemplary record in management of waste, within and outside the EAC Region.

Program Activity Three: Promoting Research and Technological Innovation (RTI) through existing Tannery infrastructure: Readily available records show that there is only one Tannery in the Region, with requisite infrastructure for Research and Development. This demonstrates the low levels of research and technological innovation in the leather and leather products industry in the EAC Region. This is further compounded by a lack of co-operation among the key actors (Universities, Tanneries and other players), in RTI. The industry lacks sustainable research programs between the Universities and the Private Sector (Tanneries), to address priority areas of research.

To promote RTI in the leather and leather products industry, this program activity proposes:

- (i) **The establishment of formal and active institutional linkages between the private sector** (tanneries and leather goods manufacturers) and science & technology Universities through MoUs and other appropriate collaborative agreements. These linkages should be program/project based, in order to engender more focused and strategic engagements in research, technology and innovation.

- (ii) **Establishment of an academia-leather industry linkage mechanism/program to facilitate regular dialogue** between the industry and the academia, that will help guide development of training programs tailored to the needs of the industry.

Program Activity Four: Promote cleaner tanning techniques in the EAC Region, to mitigate environmental and social risks. Below are the areas of focus of this program activity:

- (i) **Design and Implement a Regional (East African) Cleaner Tanning Technologies Scheme/Project (RCTTS):** Under this scheme/project, several activities will be undertaken to support the installation of well-designed effluent treatment plants (ETPs) and/or the rehabilitation of existing ETPs as well as the training of qualified ETP operators. The following activities will be undertaken by the RCTTS:

- o Facilitate provision of technical assistance to Tanneries for Tannery Waste Management
- o All tanneries in the EAC Region will be assisted, either by fully establishing and upgrading their ETPs, or by designing effluent treatment plants for them.
- o The scheme will cooperate with universities and environmental bodies, in the establishment of national (and regional) tannery effluent standards.
- o Promotion of cleaner technologies options (green tannery⁷, and waterless tanning, among others), will be introduced, studied and, where necessary, adopted and applied, in selected tanneries. Each tannery will choose specific trials directly relevant to its production needs. The technologies selected will be applied in trials at the tanneries, in order to compare the applicability, efficiency, environmental impact and cost of the different technologies.

- (ii) **Institute a code of practice on effluent treatment and management:** Drawing lessons from Europe, National Apex Leather Associations, research institutes, and government agencies in the EAC, will be encouraged to periodically conduct research on the impact of the leather industry on the environment. The same spirit underlies the various international regulations on environmental certification, from ISO 14000 to Ecolabel and Eco audit, that are currently adhered to in Europe. Emulating Europe, the goal for the EAC

⁷ There are two traditional methods of tanning, organic or inorganic. Inorganic tanning (chrome tanning), however, is hazardous to humans, in the medium to the long term. Organic tanning (vegetable tanning) is friendlier, since it does not have side effects on humans. The goal of this activity, therefore, is to promote vegetable tanning – relevant authorities will promote the production of wattle trees, from which tannin is produced. Tannin can also be produced from rejected green tea leaf or cashew nut peels, which are produced in plenty in Kenya and Tanzania, but burnt, because they are currently considered, a waste.

region is to maintain the highest possible environmental standards in the tanning processes and procedures and to encourage research in effluent management.

- (iii) *Promote value addition and utilization of hides & skins by products such as gelatine and other waste as a strategy to enhance the competitiveness of the tannery and create new stream of income:* This activity will support the upgrading of tools and the modernization of tanning facilities to adopt new technologies, creating awareness and developing capacity to transform waste from the production of wet blue, into industrial products. As highlighted in Section 2.1.2, gelatine can be processed into office glue, and other adhesives.

Strategic Objective Four: *Develop footwear and leather goods manufacturing capacities to increase production for domestic and export markets.*

Below is a description of the program activities for this strategic objective;

Program Activity One: *Upgrade/establish Modern Footwear Training Institutes with an industrial environment for the development of skilled workforce(training cum-manufacturing facility):* The footwear sector is labour-intensive, but manufacturers, whether natural fibre-based or leather- and petrochemical-based, are suffering from shortage of skilled labour. Basically, the upper stitching and shoes lasting skills are highly scarce. It is estimated that in the coming five years, footwear manufacturers will require an additional 200,000 skilled workers. So, the region needs to establish training centres with industrial environment or set up such centres within the existing engineering colleges, to support national industries and create employment for the youth.

Program Activity Two: *Development of specialized footwear and leather products manufacturing zones/Parks:* The manufacturers are scattered over a large area, which has made it difficult, if not impossible, to provide security and other facilities to them. Frequent power cuts are a cause of price increase and constraint on production. There is a need to provide footwear and leather product manufacturers with dedicated land on a concessionary basis, for development of the footwear zones. The establishment of the Kenya Leather Park, for example, is part of a bigger goal of developing a globally competitive leather industry targeting the manufacture of high-end leather products for both local and export markets. In Rwanda, plans to establish a modern tannery park in Bugesera, are advanced, and have already attracted big investors, like the PLURIPPELL GROUP s.r.l.,

an Italian company that produces finished leather. In the development of the above leather industry parks, there is need to set a standard of incentives that will be offered to private developers so that no opportunity exists for unfair treatment.

Program Activity Three: *Establish national/regional system for collective purchase of raw materials, inputs and accessories and joint production to meet bulk order from the international market.*

Program Activity Five: *Attract at least 10 anchor global brands in footwear manufacturers/global buyers:* Assess the investment needs of at least 10 SMEs in each Partner State, and scout for investment opportunities/linkages for the SMEs with big brands, through International networks/platforms such as the Leather Working Group (LWG). The LWG is made up of 400 member brands, retailers, product manufacturers, leather manufacturers, chemical suppliers and technical experts, that have worked together to develop an environmental stewardship protocol, specifically for the leather manufacturing industry. At least 10 SMEs in each Partner States will be assisted in identifying/linking/match making with a big brand through the LWG or other renowned international leather platforms.

Program Activity Six: *Develop and diversify market access to include new markets (including confidence in the local market):* One way in which this activity plans to expand and diversify market access, is by jointly marketing leather goods produced by SMEs, at Local, Regional and International Leather and Leather Products Trade Fairs. Below are the sub-activities:

- (i) Introduce harmonized specific export incentives, to facilitate the export of leather and leather products including footwear. The scheme should apply across the region:
 - a. Introduce a 5% export rebate targeting export of crust and finished leather,
 - b. Lending Facility to tanners to access credit at 5 percent interest rate for investment in crust and leather finishing (credit guarantee facility),
 - c. Introduce a 10% rebate for export of footwear and leather products, and
 - d. Freeing/easing of the visa/immigration requirement for expatriates in leather and leather technology to create skills in leather finishing.

- (ii) The East African International Leather and Leather Products EXPO will be a commissioned/launched- annual event, to show case and attract international investors in the industry. Borrowing lessons from Ethiopia, the EAC will organize an East African International Leather and Leather Products EXPO, held annually, on a rotation basis, in a Capital City of each of the six Partner States.
- (iii) As the EAC, the trade fair/s will be commissioned, in individual countries, under the auspices of the different Associations/Platforms of Leather in the Partner States; (i) Leather Apex Society of Kenya, (ii) Rwanda Leather Platform, (iii) Leather Board of Tanzania, (iv) Leather Association of Uganda and (v) Leather Apex Society of Burundi (a work in progress).
- (iv) Collective branding will be promoted, through the Leather Associations/Platforms. We need branded shoes made in East Africa. The aim is to ensure that the region produces shoes that can compete in the global Market at an affordable price.

Attract FDI to expand and diversify market access. The above Apex Societies/Platforms will be charged with working closely with Investment Promotion Agencies (IPAs), to periodically develop National Leather Profiles, and also engage in other activities that help attract FDI. Examples of the tasks include: provision of an up-to-date market intelligence on the leather sector; effectively advocating for an improved regional business environment and investment climate; institution of harmonized regional regulations/policies and incentives that are aimed at improving the competitiveness of investment in the sectors.

Strategic Objective Five: *Enhance productivity of small-scale producers (SMEs) of footwear manufacturers and other leather goods producers to raise their export capabilities, and contribution to employment and poverty reduction.*

This Strategy seeks to enhance the manufacturing capacity and capabilities of small and micro leather product manufacturers, to seize the opportunities and huge potential for high quality, locally produced leather products, by providing common manufacturing facilities for capacity building and machine service.

The SMEs are constrained by inadequate design and technical capabilities, which limit their ability to expand and improve quality. Knowledge and technical know-how is critically lacking, it is difficult for SMEs to access local experts with adequate knowledge or

a mastery of the whole shoe production process. As a result, they struggle to hire expatriates from India at high remuneration rates and high subsistence. An expatriate from India, commands a monthly salary of about USD 3,000, including his/her accommodation and travel expenses. Additionally, the marketing techniques of SMEs are inadequate – they pay minimal attention to what the market demands, in terms of quality and price, though it is certainly an uphill task to market local brands in apprehensive markets, such as the EAC Partner States. Their investments are low, with marginal profits (about USD 2 on a good shoe), which are often eroded when stock (leather shoes) is rejected after it forms cracks or moulds, borne from the low-quality leather used in production.

Program Activity One: *Promote establishment of SME Footwear, Accessories and leather Goods Clusters to facilitate formalization, business partnerships, improvement of product quality and generation of sustainable incomes for small scale entrepreneurs and start-up businesses. (Set up and certify common manufacturing facilities)*

It is envisaged that the cluster program/s (under the auspices of common manufacturing facilities), will gear up local production of high-quality leather and leather products, as Partner States, institute mechanisms to lower the bill of imported leather and leather products.

The major objective of developing the leather products and accessories cluster program, is to create/develop requisite infrastructure and integrate the production chain in a manner that caters for the needs of the leather products manufacturers, so as to cater for the domestic and export market.

Program Activity Two: *Enhance access to finance among SMEs, through local and regional development banks:* This activity will encourage SMEs to form groups of 5 to 10 businesses (or more, depending on circumstances), to enhance their credentials for accessing loans, from the Partner States' Development Banks (The Industrial Development Bank in Kenya, Uganda's Development Bank and the Tanzania Agricultural Development Bank). Through these banks, Partner States should provide low interest loans or grants, to bolster SMEs' working capital and/or purchase equipment/machinery.

Strategic Objective Six: *Develop skills, technology, R&D capabilities in order to improve competitiveness and innovation in the sector.*

Over the years, training agencies and institutions have been established by donations, received

through cooperation programs, and have been supported by regular investment programs. However, the training and technical assistance infrastructure in the leather supply chain has substantial shortfalls, both in facilities and services. Furthermore, the training programs are scarce and outdated. Below are other challenges:

- *Lack of technical skills coverage:* Using Uganda as a case example, the existing technical training institute, the Training and Common Facility Center (TCFC), which conducts training in footwear manufacture, needs to be assisted to upgrade its curricula and syllabi, as well as expanding its service coverage to effectively include leather goods. This will enable the TCFC to offer modern training courses in product design, efficient production processes, and business management. It will also assist in promoting the leather goods businesses in the country, parallel to the footwear industry; thus, providing balanced approach among leather-based manufacture.
- *The managerial and technical structure of training centres/institutes is generally inadequate, being equipped to provide services in a few areas and activities and with limited country coverage.* The delivery of practical training at the Dar-es-Salaam Institute of Technology (DIT) – Mwanza Campus, a training centre focusing on leather processing and leather products development programs, is still inadequate.

To address the above challenges, the following program activities are proposed:

Program Activity One: *Identify and fill all human resource capacity gaps in leather training institutes.* This will include conducting a skills gap and needs assessment study, covering the entire value chain and develop course curricula, assessment standards and infrastructure requirements, for training programs.

Program Activity Two: *Upgrade and enhance the capacity of ALL leather training institutions.* Below are the areas of focus for this program activity;

- (i) The capacity of leather training institutions will be enhanced through the provision of improved tools and training syllabi/curricula to the institutes, in order to lead to Regionally/nationally-recognized certificates issued by training institutes. The institutes will act as Regional Leather Training Centres to evolve skills and technological capability for industry, and place the industry on a sustainable competitive path. They will, for example, develop continuous courses

and training programs, in line with national qualification frameworks, targeting artisan technicians, footwear manufacturers and other leather goods manufacturers.

- (ii) A degree program at universities covering leather technologists and leather designers, will be introduced and aggressively promoted.

Strategic Objective Seven: *Strengthen governance, policy, regulatory systems, and institutional coordination mechanism to ensure streamlined business environment.*

The poor quality of hides and skins is an intractable issue, and is ranked the second most problematic factor to value chain competitiveness. Presently, close to 40 percent of raw hides and skins, purchased by tanneries, are rejected with huge defects (deep flay cuts, shapeless, etc.) and among the 60 percent purchased, between 5 and 10 percent are unusable because they are easily holed during the process of liming and tanning. Furthermore, **close to 60 percent of damages to the hides and skins occur during the slaughtering process.** These damages are avoidable, if enforcement of standards and codes of practice is reinforced.

Presently, ALL Partner States' Hides and Skins Acts are outdated. The Hides and Skins trade Acts are not in line with the present trade liberalization regime. The Acts do not provide for a strong institutional coordination mechanism to regulate, monitor and discourage smuggling. Some of the Acts are not consistent with the EAC Common Market Protocols, which promote free movement of goods within the region. In some instances, the Acts outlaw/ban trade of Hides and Skins within the EAC region. The Acts should, therefore, be reviewed to promote and monitor the entire value chain (from the production of hides and skins to the production of leather and leather products).

Below is a description of the program activities for this strategic objective:

Program Activity One: *Develop a harmonized regulatory framework on hides and skins and leather processing to provide a mechanism for effective institutional coordination and management of the entire value chain and promote trade within the region:* At national level, a regulator/agency should be appointed and given the mandate of regulation and overseeing compliance with requisite standards and codes of practice on the handling of hides and skins and quality control. "Model" Regional Regulation on Hides and Skins and leather processing, will be designed to provide a legal means for enforcement of

quality compliance in the entire value chain, ensure unhindered trade within the region and preserve raw materials for domestic value addition.

Program Activity Two: *Strengthen/establish National Leather Development Councils/Boards/Institutes, and Private Leather Apex Societies (a union of all leather Associations) in ALL Partner States:* Using the case example of Kenya and Rwanda, all the other Partner States should institute Leather Development Councils/Leather Development Boards and Private Leather Apex Societies(a union of all leather associations). The incorporation of the above bodies will be informed by comprehensive feasibility studies and study tours.

Program Activity Four: *Develop national policies and institutional mechanisms to implement the Summit directive on Public Procurement of leather products from producers/manufacturers within the region:*

- (i) This activity will raise awareness and also lobby Partner States, to expedite the development of policies on school uniforms (shoes) as a national strategy, to stimulate demand for leather footwear within the education sector. A similar policy will be introduced within the national security agencies, with particular focus on the police and armed forces. The policies will be designed to promote intra-regional sourcing of these goods and to be aligned to the EAC Customs Union and Common Market Protocols. Overall, this activity espouses a preference of as much as 30 percent of Government Procurements of leather footwear and other leather products to local manufacturers (SMEs).
- (ii) Establish National Focal Points on the implementation of the summit directive on public procurement of leather products from producers, manufacturers, within the region.
- (iii) Introduce and promote the monthly EAC leather dressing campaign – “Dress Leather Made in the EAC”.

Program Activity Five: *Develop/establish a joint monitoring and surveillance exercises of imported footwear, by the public agencies and the footwear associations to control pirated and counterfeited brands of footwear coming into the region.*





9 IMPLEMENTATION AND COORDINATION ARRANGEMENTS

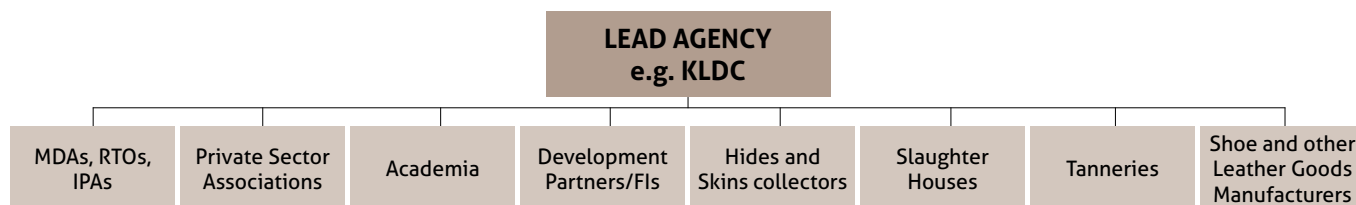
9.1 National Level Implementation and Coordination

The framework below, illustrates the arrangements at national level, for the implementation and coordination of the EAC Leather and Leather Goods Strategy. A Lead State/Government Agency, in each Partner State (e.g. the Kenya Leather Development Council in Kenya; the Leather Value Chain Platform in Rwanda; and the Leather Regulatory Board in Tanzania), will champion implementation of the Strategy. The lead agency will work closely with all relevant MDAs, including the Ministries of East Africa Community Affairs, Industry, Livestock, Trade and Finance. The

Agency will also coordinate the activities of all other players in the industry, including the academia, development partners, hides and skins collectors, slaughter houses, tanneries and manufacturers of shoes and other leather products.

The lead agency will be charged with facilitating the establishment of National Leather Sector Platform, comprising all the above players. Through the platform, the Agency will launch implementation of the Strategy.

The National Leather Sector Platform



9.2 Regional Level Implementation and Coordination

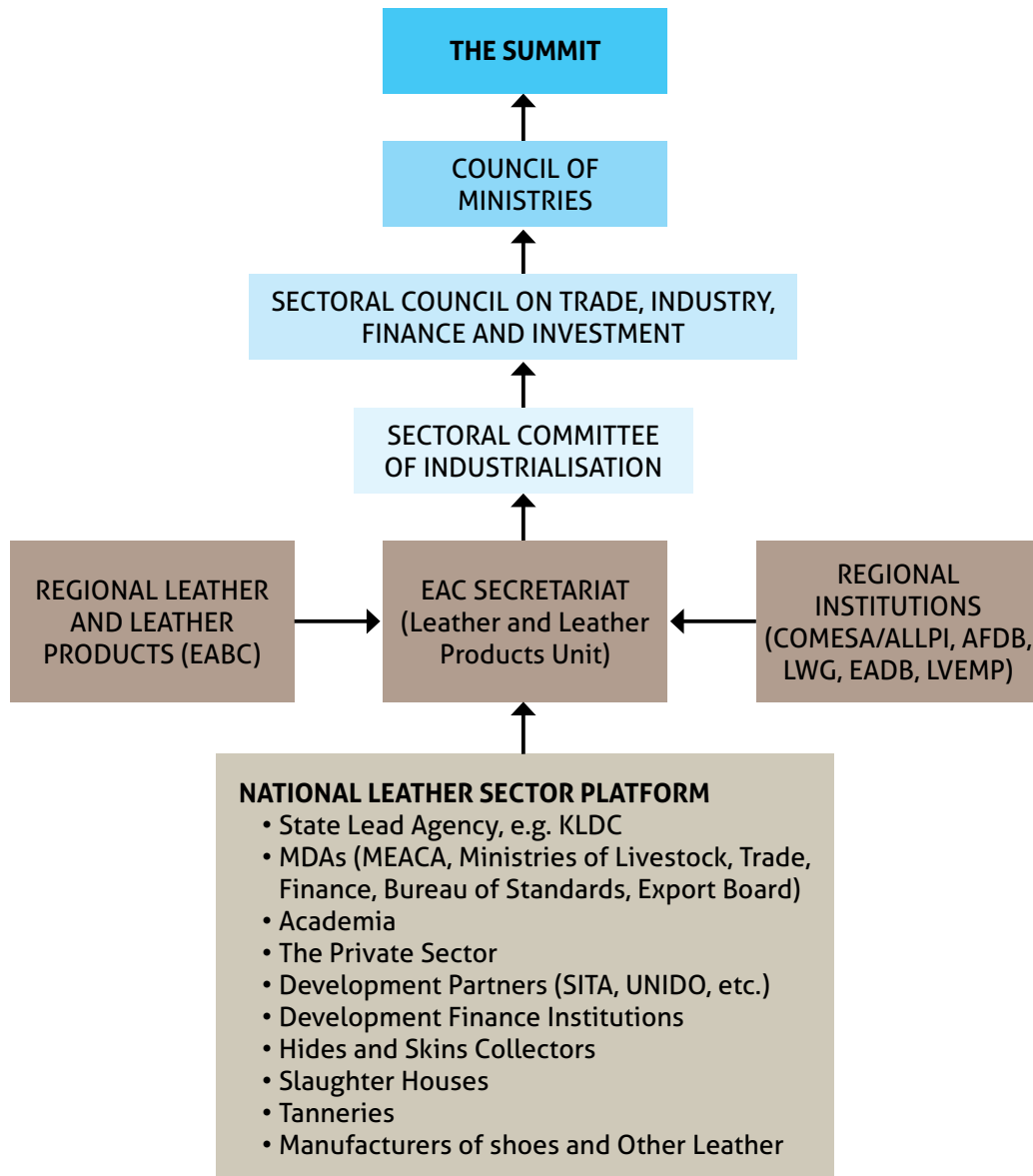
Through the National Leather Sector Platform, the Lead Agency, will work closely and also guide relevant MDAs, mainstream the EAC Leather and Leather Goods Strategy into their national plans and budgeting processing, and also ensure that National Leather Value Chain Policies and Strategies are aligned to regional initiatives.

Through the National Leather Sector Platform, private sector representative organizations, including the Leather Apex Society of Kenya; the Uganda Leather Industries Association and Burundi Leather Goods and Footwear Enterprises Federation, shall be supported to play a lead role in the implementation and monitoring of the EAC Leather and Leather Products Strategy (2020 - 2030).

The EAC Secretariat will oversee coordination of the implementation of the Strategy. A Leather and Leather Products Unit will be established to facilitate coordination of implementation.

Reporting on the Strategy implementation, will follow the structures of the EAC regional policy organ, including EAC Sectoral Committee on Industrialization, EAC Sectoral Council on Trade, Industry, Finance and Investment and the Council of Ministers. Additionally, a regional private sector apex body, the East African Leather and Leather Goods Platform, will be established within the auspices of East African Business Council (EABC). The Platform will provide a voice for the industry and assist in coordinating and facilitating engagement with EAC policy making organisations. The federation will comprise Apex Leather and Leather Goods Associations. The proposed institutional structure for the strategy implementation is provided on the next page.

Proposed institutional structure for the strategy implementation



10 MONITORING AND EVALUATION

Monitoring and Evaluation (M&E) will have two elements:

- a) **Monitoring and reporting progress against targets:** Monitoring will be done periodically after every 3 years, and will involve several types of activities: setting up data collection and reporting processes, periodic analyses and assessment of outcomes of the programs outlined in Strategy against targets (including whether program milestones have been achieved). Evidence-based decision-making will be a critical, complemented by the development of “lessons learned” in implementing the different programs areas of the Strategy. Regular monitoring will allow incorporation of lessons learnt during implementation and any “course correcting”.
- b) **Evaluation of achievements and identification of areas for improvement:** Evaluation will involve collection of data, analysis, and assessment of data from implementing program activities, to assess progress and whether or not specific results have been achieved. Evaluation of activities will include conducting baseline surveys, mid-point and end-line surveys. These will be performed by an external consultant (an individual or a research firm).





11 RESOURCE MOBILIZATION AND FUNDING THE STRATEGY

Funding of the EAC Leather and Leather Products Strategy is presented in two parts; Part One presents funding mechanisms for coordinating implementation of the Strategy. Part Two presents mechanisms for funding implementation of the different projects and programs delineated in the Strategy. Below are the two parts;

11.1 Funding Coordination of the EAC Leather and Leather Products Strategy

Partner States National Budgets

Partner States will be charged with integrating regional activities into national budget planning processes. Focal persons will be identified in relevant MDAs, to coordinate, follow up mainstreaming regional integration issues on the development of the leather industry, into MDAs' Strategies/Work Plans, and also ensure expeditious decision making, and/or influencing of policies to prioritize the implementation of the programs and projects that are mainstreamed.

The Leather Development Fund (LDF)

The proposed LDF will form the funding mechanism for coordination of National and Regional Leather Development programs and, where possible, rehabilitate finishing leather infrastructure. The source of funding for the LDF will include a share/percentage of levies and duties collected from the export of wet blue, hides and skins; and imports of leather goods and footwear into the region. Additional sources of fund will be mobilized from access tax, collected from animals slaughtered, and a levy on imported footwear and leather goods – the levy will be set above the set CET rates for imported footwear and leather goods.

11.2 Funding Implementation of Projects/ Programs in the EAC Leather and Leather Product Strategy

State Corporations - Public Private Partnerships (PPPs) Regional Special Purpose Investment Vehicles (SPIVs) targeting investment in key value chains

Public-private partnerships (PPPs) in the EAC Partner States have been used widely and somewhat effectively in the implementation of large public projects thus, providing an avenue for implementation of some components of this leather and leather products strategy.

A case in point is the Uganda Development Corporation (UDC), which can buy a stake in the proposed new finished leather manufacturing factories. UDC is an investment institution, established as a wholly owned government entity, with the mandate to facilitate the industrial and economic development of Uganda.

EAC will establish a regional special purpose investment vehicle (SPIV), to facilitate mobilization of investment funds from the public and private sector, for the purposes of investing in viable projects in the leather value chains. It is proposed that the Partner States explore the scope of using corporate bond issuance (capital markets), with the SPIV as the bond issuer and the lender of record to medium sized firms as a means to finance upgrading and modernization. The main shareholders of the SPIVs will be the national development corporations, or national development finance institutions. A detailed framework for these regional SPIVs will be developed in line with the EAC industrialization policy on promoting the development of regional industries in the Community.

Credit Guarantees

There is an increasing need to incentivize funding to the sector through targeted development partners, including Development Finance Institutions and equity partners. A number of funders, including the African Development Bank, the European Investment Bank and related partners, have partnered with local lenders to offer credit support to the budding small and medium scale enterprises across a number of sectors. Amidst the recorded support, the leather industry has not attracted sufficient attention from either lenders or development partners. The strategy therefore, proposes credit guarantee programs that would partly offset the credit risk faced by lenders to the leather industry. The sustainable strategy would therefore call for a combination of the following:

- i) **Partial credit guarantees to domestic lending institutions supported:** Partial credit guarantees to enhance the attractiveness of the targeted sector, by reducing the risk of loss in case of default. A number of guarantees have been extended by key institutions across the region. Institutions, including ABI Finance and KFW, have been issuing a 50 percent guarantee to support commercial bank credit to the agricultural sector. This has specifically enhanced lending to several agricultural production ventures. The same could be replicated for the leather industry through such development finance institutions across the region.
- ii) **Targeted funding at concessional funds:** The current market interest rates for commercial ventures are not attractive to investors in the leather industry. For an entity to service a loan at a going rate of 20 percent, a net profitability margin of over 30 percent is necessary for the business, given that these high investment entities tend to be highly leveraged. The transformation strategy should, therefore, provide for provision of concessional funding that would support start-ups with minimal investment capital. This could be achieved through government facilitation through national development banks extending loans to leather focused entities.

Foreign Direct Investments and Portfolio Investment

National overarching public institutes/bodies, similar to the Kenya's Leather Development Council, will champion investment campaigns and also design tools and programs, to highlight the investment potential in individual Partner States, and the EAC Region, as a whole. They will work closely with Investment and Export Promotion Agencies, to attract both local and foreign investment in leather industrial parks and other medium to large leather infrastructural projects.

Development Partner Support

A Round-Table of potential Development Partners, will be constituted, to lobby and also solicit funds for implementing the EAC Leather and Leather Products Strategy. The Fora, will comprise the following Development Partners: China International Development Cooperation Agency (CIDCA), Trademark East Africa, Deutsche Gesellschaft für Internationale Zusammenarbeit, World Bank, United Nations Development Programme, Swedish International Development Agency, Danish International Development Agency, GCF (Green Climate Fund), and L'Agence Française de Développement, amongst others. The region, in collaboration with development partners, will explore the scope for the establishment of a Regional Leather Sector Trade and Investment Grant Facility, to be hosted at regional development banks and to be used to support implementation of various interventions of the Strategy.





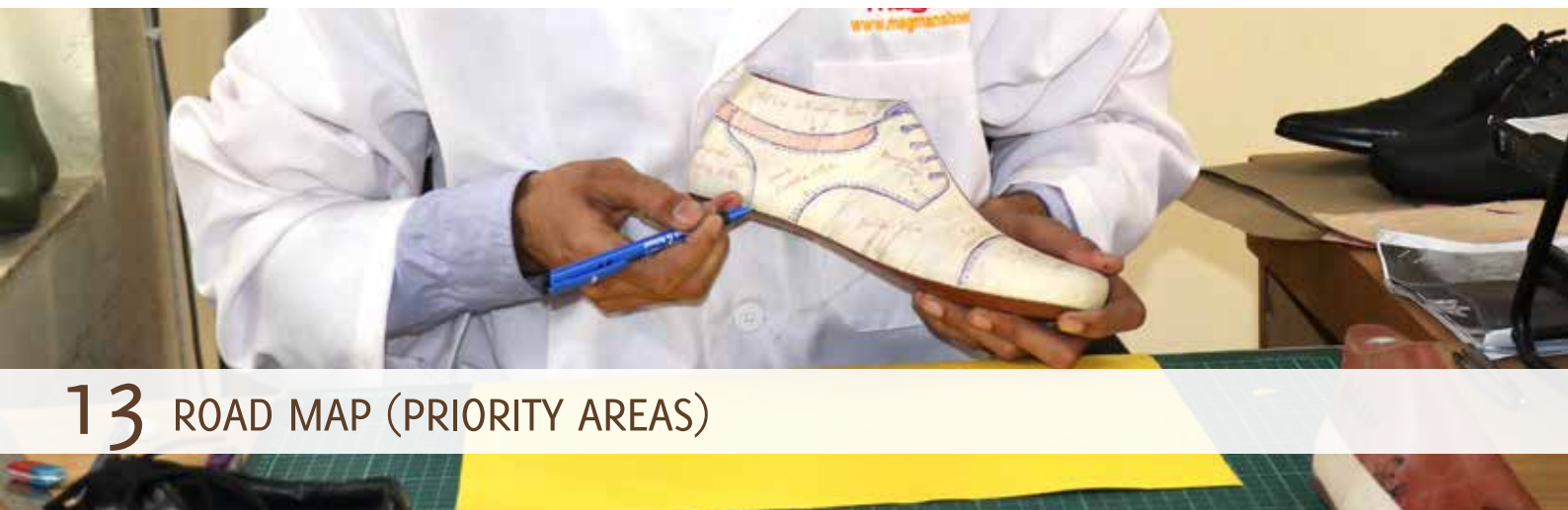
12 SUMMARY BUDGET FOR IMPLEMENTING THE STRATEGY

The budget for implementing the EAC Leather and Leather Products Strategy (2020 - 2030) is delineated in Table 10 below:

Table 10: Strategic Objectives and the Budget Line per Programme

Strategic Objectives	Programme Activities	Budget (US \$)
Strategic Objective One: Improve and modernize livestock husbandry practices for sustainable supply of renewable resource for downstream industries	Programme One: Enhancing the quality and regulatory systems for livestock management to ensure sustainable production and supply of high-quality hides and skins along the value chain	1,650,000
Strategic Objective Two: Improve/modernize processing infrastructure to guarantee the provision of high quality and quantity of hides & skins and preserve the critical raw materials for domestic value addition	Programme One: Modernize and strengthen infrastructure and supply chain for hides and Skin collection and storage	1,000,000
	Programme Two: Modernize the operations of slaughter slabs/houses and abattoirs	3,500,000
Strategic Objective Three: Facilitate increased investment in integrated tannery and management of tannery wastes and by-products	Programme One: Support the modernization, expansion and diversification of tanneries capacities - reinforce/establish Credit Guarantee Schemes to enhance technical capacity (including buying equipment) for product diversification	40,000,000
	Programme Two: Inter-firm regional cooperation/ collaboration in tanning and finishing (contract tanning and finishing)	300,000
	Programme Three: Promote Research, Technology and Innovation through existing tannery infrastructure	500,000
	Programme Four: Promote cleaner tanning techniques in the EAC Region, to mitigate environmental and social risks	2,500,000

Strategic Objectives	Programme Activities	Budget (US \$)
Strategic Objective Four: Develop Footwear Manufacturing Capacities to increase production for domestic and export markets.	Program Activity One: Upgrade/establish a Modern Footwear Training Institute with an industrial environment for the development of skilled workforce (training cum-manufacturing facility):	10,000,000
	Program Activity Two: Development of specialized footwear Manufacturing zones/Parks	30,000,000
	Program Activity Three: Establish national/regional system for collective purchase of raw materials, inputs and accessories and joint production to meet bulk order from the international market	800,000
	Program Activity Five: Attract and match at least 10 anchor global brands in footwear manufacturers/ global buyers with local SMEs	1,500,000
	Programme Six: Expand and diversify market access to include new markets (including growing confidence in locally manufactured leather goods	600,000
Strategic Objective Five: Enhance productivity of small-scale producers (SMEs) of footwear manufacturers and other leather goods producers to raise their export capabilities, and contribution to employment and poverty reduction	Programme One: Promote establishment of SME Footwear, Accessories and leather Goods Clusters to facilitate formalization, business partnerships, improvement of product quality and generation of sustainable incomes for small scale entrepreneurs and start-up businesses. (Set up and certify common manufacturing facilities)	3,500,000
	Programme Two: Enhance access to finance among SMEs, through local and regional development banks	10,000,000
Strategic Objective Six: Develop skills, technology, R&D capabilities in order to improve competitiveness and innovation in the sector	Programme One: Identify and fill all human resource capacity gaps in leather training institutes	500,000
	Programme Two: Upgrade and enhance the capacity of ALL leather training institutions	5,500,000
Strategic Objective Seven: Strengthen governance, policy, regulatory systems, and institutional coordination mechanism and support services for a conducive business environment	Programme One: Develop a Harmonized Regulatory Framework on hides and skins and leather processing to provide a mechanism for effective institutional coordination and management of the entire value chain and promote trade within the region	500,000
	Programme Two: Strengthen/establish National Leather Development Councils/Boards/Institutes, and Private Leather Apex Societies (a union of all leather Associations) in ALL Partner States	700,000
	Program Three: Support the harmonization and removal of anomalies in taxation, duties, VATs and other levies on raw material, inputs, accessories and finished products in the entire value chains.	1,500,000
	Program Four: Develop national policies and institutional mechanisms to implement the Summit directive on Public Procurement of leather products from producers or manufacturers within the region	600,000
	Program Activity Five: Develop/establish a joint monitoring and surveillance exercises of imported footwear, by the public agencies and the footwear associations to control pirated and counterfeited brands of footwear coming into the region	200,000
Monitoring and Evaluation		1,800,000
Total		117,150,000



13 ROAD MAP (PRIORITY AREAS)

This section presents priority activities, which need to be implemented for the successful execution of the leather and leather goods strategy. The areas are presented in two sections; (i) preparatory phase, and (ii) implementation phase.

13.1 Preparatory Phase

The First 6 months to Year One

Output	Activities	Implementing Agency/ Institutions
Strategic Objective Four: Strengthen governance, policy, regulatory systems, and institutional coordination mechanism and support services for a conducive business environment		
Programme One: Support establishment of one overarching body to regulate, promote and monitor the development of the leather value chain		
• State Agency identified and designated to lead implementation of the EAC Leather and Leather Products Strategy • National Leather Sector Forum established and operationalized • Regional Leather and Leather Goods Forum established • Implementation of EAC Leather and Leather Products Strategy launched • Model Acts and other instruments to coordinate sector activities designed and operationalized • 1000 investors express interest in international conference and investment forum on the EAC leather sector • 50% improvement in coordination of sector activities in Year One of establishing overarching body	• Identify and designate national lead agency to manage and coordinate the Strategy • Design and implement a capacity building program, for continuous human resource development of the National Leather Sector Forum/ Platform • Conduct strategy meetings with relevant Associations and Ministries to coordinate and implement the Strategy • Commission the development of a Regional Model Act for coordinating the sector • Conduct awareness campaigns to popularize Regional Model Act for coordinating the sector • Organize international conference and investment forum on the EAC leather sector	IDD, EAC Secretariat, Ministries of Agriculture and Animal Husbandry, Ministries of Trade, Education, East Africa Community, Bureaus of Standards, Leather Associations and the Academia
Programme Three: Fully implement Summit Directive on Public Procurement of leather products from manufacturer within the Region		

Output	Activities	Implementing Agency/ Institutions
• A national focal point is identified and established to work closely with the Secretariat to coordinate and facilitate procurement of leather and leather products in the EAC • Monthly EAC Leather Attire Campaign launched and operational • 50 SMEs benefiting from public procurement policy on locally manufactured leather goods in Year One • US\$ 300,000 portfolio (budget for procurement of goods) allocated to public procurement of locally manufactured leather goods	• Identify focal point to champion summit directive at national level • Facilitate study tours round the EAC Region and comparator RECs, to benchmark best practices in public procurement of leather goods • Identify and analyse opportunities for pooled procurement of leather products for the public sector • Design and implement program for instituting public procurement • Facilitate the EAC Secretariat to lobby Partner States to expedite pronouncement of measures on public procurement of leather goods	IDD, EAC Secretariat, Ministries of Agriculture and Animal Husbandry, Ministries of Trade, Education, East Africa Community, Bureaus of Standards, Leather Associations, DFIs, Local, Regional and International Banks
Strategic Objective Six: Skills Development and Integrated Entrepreneurship for the Leather Industry to standardize, coordinate and strengthen activities of the national leather training facilities		
Programme One: Upgrade and enhance the capacity of leather training institutions; and Identify and fill all human resource capacity gaps in leather training institutes		
• Standardized curricular for leather training institutions • Degree program for leather technologists and leather designers introduced at Universities • Regional centres of excellence in leather training certified • Course curriculum developed for each area based on skills gap assessment, assessment standards for certification agency and identification of ways to train (on-job, theory, mix)	• Review the mandate of leather training institutions to enable them better respond to needs of the industry/sector • Identify and upgrade institutions into centres of excellence • Conduct a skills gap and needs assessment study covering the entire value chain, and develop course curricula, assessment standards and infrastructure requirements for training programs	IDD, EAC Secretariat, Ministries of Ministries of Trade, Education, Finance, East Africa Community, Agriculture, BTVETs, Leather Associations, Development Partners (UNIDO,

13.2 Implementation Phase

1 – 5 Years

Outputs	Activities	Implementing Agency/ Institutions
Strategic Objective Two: Improve/modernize processing infrastructure to guarantee the provision of high quality and quantity of hides & skins and preserve the critical raw materials for domestic value addition		
Programme Two: Modernize the collection and storage of hides and skins		
• 500 flayers trained in modern flaying techniques • 100 training and awareness campaigns on good management practices for H&S collection centres held annually • Harmonized standards for hides and skins • 100 H&S collection centres sensitized/trained annually • 50% increase in levels of awareness among traders in management at H&S centers • 50% increase in trade in high quality hides from H&S centers by Yr. 3 of implementing the Strategy • 50% increase in quantity of high-quality hides from H&S centers by Yr. 3 of implementing the Strategy • 50 % increase in revenue collected by Govt. from traders in H&S by Yr 3 of implementing the Strategy	• Quantify the capacity of current H&S collection centers vis-à-vis their potential • Mobilize funding for Partner States to renovate and/or rebuild new H&S collection centres • Institute training of training program for slaughter houses/slabs and abattoirs on best practices in the collection, curing and storage of H&S • Institute a stringent enforcement system for laws and regulations governing trade in hides and skins • Pilot a Hides and Skins auction market in each Partner State • Facilitate establishment of effective Information Management and Dissemination Systems (for trade in hides and skins) at National level, which are linked regionally and reflective of ongoing efforts on harmonisation of regional statistics	IDD, EAC Secretariat, Ministries of Agriculture and Animal Husbandry, Ministries of Trade, Education, East Africa Community, Bureaus of Standards, Leather Associations and the Academia
Strategic Objective Five: Enhance productivity of small-scale producers (SMEs) of footwear manufacturers and other leather goods producers to raise their export capabilities, and contribution to employment and poverty reduction		
Programme One: Develop leather products and accessories CLUSTER program to promote production efficiency in the industry		
• MOUs signed between facilities and DFIs for upgrading, certifying and provision of services to SMEs • Certified training modules for the common manufacturing facilities • Fully staffed common manufacturing facilities, guided by needs assessment • Upgraded facilities and fully equipped with requisite machinery, guided by needs assessment • 100 SMEs enrolled at common manufacturing facilities annually • 100 SMEs certified by the common manufacturing facilities annually	• Map existing SME clusters in leather sector, to identify cluster needs and opportunities to leverage using clustering as a tool, with a view to improving their productivity and competitiveness • Undertake an inventory of existing structures that can be transformed/ upgraded into regional common leather goods manufacturing facilities • Identify and partner with DFIs (including UNIDO) to upgrade (staff and equipment) and certify common leather goods manufacturing facilities • Design and implement program and criteria for provision of common manufacturing services to SMEs • Reinforce the capacities and capabilities of identified common manufacturing facilities/institution	IDD, EAC Secretariat, Ministries of Ministries of Trade, Education, Finance, East Africa Community, Agriculture, BTVEs, Leather Associations, Development Partners (UNIDO, etc)
Programme Three: Enhance access to finance among SMEs, through local and regional development banks		

Outputs	Activities	Implementing Agency/ Institutions
• At least 5 local and regional banks expressing interest in SMEs in leather goods manufacture • Over \$ 10 million portfolio of loans to SMEs • 40% increase in improvement in entrepreneurial skills of SMEs on annual basis • Enhanced industrial productivity (leather manufacturing) among SMEs • 20% increase in leather industry sector employment on annual basis • At least 50 employees of financial institutions trained per annum on the leather sector financial needs and the development of adapted financial tools	• Commission a study, to understand in detail the risks associated with lending to SMEs engaged in the local production of leather goods and footwear • Engage local and regional development banks to design products that suit the needs of SMEs in leather goods manufacture • Design and roll-out program for grouping SMEs to access loans from local and regional development banks • Provide entrepreneurial capacity building (combined with IT) for at least 100 entrepreneurs in each of the Partner States	IDD, EAC Secretariat, Ministries of Ministries of Trade, Education, Finance, Agriculture, BTVEs, Apex Leather Associations, Development Partners (UNIDO, etc), DFIs, Local, Regional and International Banks

ANNEX 1: DETAILED IMPLEMENTATION MATRIX

Strategic Objective One: Improve and modernize livestock husbandry practices for sustainable supply of renewable resource for downstream industries

Programme Area	Outputs	Activities	Output Indicator	Time-frame	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
Programme One: Enhancing the quality and regulatory systems for livestock management to ensure sustainable production and supply of high quality hides and skins along the value chain	- Guidelines on best practices for promoting/improving AI and livestock management developed and disseminated - Pilot breeding (AI) program targeting pastoralists/livestock keepers - Guidelines/framework on good feeding (feed meal) practices and livestock nutrition developed and piloted - Capacity building and training of pastoralists in breeding, feeding (nutrition) and livestock health - Animal health management centres of excellence designated and upgraded in each Partner State	- Identify suitable locations for establishing AI Units in pastoralist communities - Identify and set up demonstration units to build capacity and also promote good breeding, feeding and animal health in pastoralists communities - Mobilize champions to promote good breeding, feeding and animal health in pastoralists communities - Design training manuals on good breeding and feeding practices - Design and implement/conduct comprehensive awareness/sensitization campaigns on good breeding practices, healthy feeding and animal health	100 champions at household & community level, identified to head AI campaigns against poor breeding and feeding practices 500 pastoralists trained annually on good breeding and healthy feeding practices and general animal health 30% increase in improved breeds among pastoral communities/livestock keepers 6 centres of excellence in animal health management designated and upgraded	2020 - 2025	EAC Secretariat, Ministries of Livestock, MEACA, Trade	The Leather Regulatory Board in Tanzania; Kenya Leather Development Council, the Leather Apex Society of Kenya; the Leather Value Chain Platform in Rwanda; Uganda Leather Industries Association and Burundi Leather Goods and Footwear Enterprises Federation	200,000	- Herders willing to embrace reforms and act as change agents for good husbandry practices - Availability of sufficient resources to undertake the planned activities - Activities Implemented	- Pastoralists (animal herders) - Households with animals - Traders in hides and skins - EAC Secretariat and Partner States

Programme Area	Outputs	Activities	Output Indicator	Time-frame	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
	- National and regional regulations on defect-free branding designed, instituted and operationalized - Training for farmers, livestock keepers, and herders, on defect-free branding piloted - Branding using micro-chips and other acceptable technologies in pastoralist communities launched	- Design and implement comprehensive awareness/sensitization campaigns on defect-free branding - Mobilize champions to promote defect-free branding - pastoralists communities - Map and identify livestock farmers for piloting micro-chips program - Procure and distribute micro-chips to farmers	3,000 farmers sensitized on the value of hides and skins, and the impact of poor husbandry practices 1,500 farmers trained	2020 - 2025	EAC Secretariat, Ministries of Agriculture and Animal Husbandry, Ministries of Trade, Standards and Revenue Authorities	The Leather Regulatory Board in Tanzania; Kenya Leather Development Council, the Leather Apex Society of Kenya; the Leather Value Chain Platform in Rwanda; Uganda Leather Industries Association and Burundi Leather Goods and Footwear Enterprises Federation	200,000	- Herders willing to embrace reforms as change agents for good husbandry practices - Availability of sufficient resources to undertake the planned activities - Activities Implemented	- Pastoralists (animal herders) - Households with animals - Traders in hides and skins - Tanneries - EAC Secretariat and Partner States
	- Framework for private sector led provision of extension services institutionalized - An incentive scheme for private sector led extension services developed - Training and capacity building for private extension workers operationalized - Certification framework for private sector led extension services developed - TOT for community-based extension services providers	- Organize the private sector and farmers (pastoralists and livestock keepers) and sensitize them on opportunities for private sector led extension services - Raise awareness/promote private sector led provision of extension services - Build capacity of private vets on the value of hides and skins in the provision of extension services - Mobilize champions to promote extension services - Incentivize private sector led provision of extension services	2,000 farmers sensitized on the provision of private sector led extension service 100 private vets enrolled to provide extension services in each Partner State, per annum - Quality improvements in the provision of extension services, focusing on hides and skins management	2020 - 2025	IDD, EAC Secretariat, Ministries of Agriculture and Animal Husbandry	The Leather Regulatory Board in Tanzania; Kenya Leather Development Council, the Leather Apex Society of Kenya; the Leather Value Chain Platform in Rwanda; Uganda Leather Industries Association and Burundi Leather Goods and Footwear Enterprises Federation	150,000	- Willingness of Partner States to revive extension services - Availability of sufficient resources to undertake the planned activities - Activities Implemented	- Pastoralists (animal herders) - Households with animals - MDAs (Agriculture and Animal Husbandry)

Programme Area	Outputs	Activities	Output Indicator	Time-frame	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
	- Guidelines on animal welfare during transportation and overall handling operationalized - Framework for establishing Animal Welfare Advisory Council, to enforce guidelines/regulations on animal wellness operationalized - Full-fledged Animal Welfare Advisory Councils in ALL Partner States - A set of instant penalties for cases of animal cruelty	- Design terms of reference for animal welfare council (including its composition) - Conduct awareness/sensitization campaigns on the acceptable methods for transporting animals and handling	100 farmers, traders, flayers trained annually on best practices in animal welfare (acceptable methods for transporting animals) % increase in animals with defect-free hides and skins from transportation and cruelty	2020 - 2025	IDD, EAC Secretariat, Ministries of Agriculture and Animal Husbandry, Ministries of Trade, Bureaus of Standards and Revenue Authorities	The Leather Regulatory Board in Tanzania; Kenya Leather Development Council, the Leather Apex Society of Kenya; the Leather Value Chain Platform in Rwanda; Uganda Leather Industries Association and Burundi Leather Goods and Footwear Enterprises Federation	600,000	- Animal transporters and slaughter houses willing to embrace reforms - Availability of sufficient resources to undertake the planned activities - Activities Implemented	- Animal transporters - Traders in hides and skins - Tanneries - EAC Secretariat and Partner States
	- Terms of reference for the inter agency (comprising ports, customs hides and skins authorities in place) - Members of the inter agency nominated and approved - Programme of Action to curb smuggling within and outside EAC region designed and implemented	Establish an inter agency comprising ports, customs, hides and skins authorities and the courts of law to monitor and track smuggling of hides and skins within and outside EAC region	100% inspection of hides and skins transiting through the EAC Region 20% decrease in hides and skins smuggled on annual basis - Effective and harmonious coordination of national and regional agenda on smuggling	2020 - 2029	IDD, EAC Secretariat, Revenue Authorities, Ministries of Agriculture and Animal Husbandry Development Partners (GIZ, Trademark East Africa, etc)	The Leather Regulatory Board in Tanzania; Kenya Leather Development Council, the Leather Apex Society of Kenya; the Leather Value Chain Platform in Rwanda; Uganda Leather Industries Association and Burundi Leather Goods and Footwear Enterprises Federation	500,000	- Capacity (including the will) of Partner States to end smuggling - Availability of sufficient resources to undertake the planned activities - Activities Implemented	- Partner States - Tanneries - Hides and skins traders - Revenue Authorities - MDAs (Finance, Industry, Agriculture and Animal Husbandry)

Strategic Objective Two: Improve/modernize processing infrastructure to guarantee the provision of high quality and quantity of hides & skins and preserve the critical raw materials for domestic value addition

Programme Area	Outputs	Activities	Output Indicator	Time-frame	Implementing Agency	Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
<u>Programme One:</u> Modernize and strengthen infrastructure and supply chain for hides and skins collection and storage	- Standardized H&S collection centers in the Region, operational - Programme of Action on installation of modern infrastructure at H&S collection centers - Capacity building/training report on best practices in the collection, curing and storage of H&S - Awareness-raising campaigns on the auction market - Improved efficiency in the quality of industrial data collected and analysed - Feasibility of setting up auction assessed - Pilot auction markets for hides and skins established - Electronic trading platform (auction) for hides and skins procured and installed - Operational Information Management and Dissemination Systems (for trade in hides and skins) at National level, which are linked regionally	- Quantify the capacity of current H&S collection centers vis-à-vis their potential - Mobilize funding for Partner States to renovate and/or rebuild new standardized H&S collection centres - Build standardized H&S collection centers in the Region - Institute training of training program for slaughter houses/slabs and abattoirs on best practices in the collection, curing and storage of H&S - Institute a stringent enforcement system for laws and regulations governing trade in hides and skins - Pilot a Hides and Skins auction market in each Partner State - Establish an effective Information Management and Dissemination Systems (for trade in hides and skins) at National level, which are linked regionally and reflective of ongoing efforts on harmonisation of regional statistics	500 H&S traders sensitized/trained in the Region, annually 30 selected H&S collection centres modernized 20% increase in levels of awareness among traders in management at H&S centers, on an annual basis 20% increase in trade in high quality hides from H&S centers, on annual basis 20% increase in revenue collected by Govt. from traders in H&S, on annual basis 30% of H&S are traded through the Electronic trading platform (auction), in Yr 1 of establishing the market - A 30% annual increase in transactions in H&S tracked by the MIS	2020 - 2025	IDD, EAC Secretariat, Ministries of Agriculture and Animal Husbandry Development Partners (GIZ, Trade-mark East Africa, etc) The Leather Regulatory Board in Tanzania; Kenya Leather Development Council, the Leather Apex Society of Kenya; the Leather Value Chain Platform in Rwanda; Uganda Leather Industries Association and Burundi Leather Goods Enterprises Federation	1,000,000	- Willingness of abattoirs, slaughter houses/slabs to modernize infrastructure - Cost of modernizing infrastructure reasonable and affordable - Availability of sufficient resources to undertake the planned activities - Activities implemented	- Abattoirs, slaughter houses/slabs - Hides and skins traders - Tanners - Farmers - MDAs (Agriculture and Animal Husbandry)

Programme Area	Outputs	Activities	Output Indicator	Time-frame	Implementing Agency	Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
<u>Programme Two:</u> Modernize the operations of slaughter of slaughter slabs/houses and abattoirs	• Charter of harmonized playing practices grading system for Hides and Skins at slaughter houses and abattoirs • MOU signed between Abattoirs and Tanneries on implementing harmonized playing and grading of hides and skins • Affordable curved playing knives readily on the market • Periodic increase in sales of curved knives • Slaughter House Index established • Harmonized standards and quality guidelines for hides and skins • Sensitized Stakeholders on standards related to hides and skins quality • Strengthened provision of Extension Services to Slaughter Houses	• Design and commission a Programme of Action on installation of modern infrastructure at abattoirs and slaughter houses, in ALL Partner States • Review and harmonize rules and practices for operations of slaughter slabs/houses and abattoirs • Improve technology in playing practices - Incentivize (subsidize) stockists to supply curved playing knives to slaughter houses, slabs and abattoirs • Establish a slaughter house index in all Partner States to differentiate quality of slaughter houses • Finalize review and harmonization of standards and quality guidelines for hides and skins handling, and grading system	• 30 selected slaughter slabs/abattoirs modernized • 500 slaughter house/abattoir operators trained on harmonized playing and grading practices, annually • 30% annual increase in the provision of extension services to slaughter houses and abattoirs • 10% annual increase in number of abattoirs with modern de-hiding/deskining infrastructure • 20% annual increase in animals that are ripped well and defect free hides and skins • 30% annual increase in levels of awareness among flayers and hides and skins traders on hides and skins management at abattoirs	2020 - 2029	IDD, EAC Secretariat, Ministries of Agriculture and Animal Husbandry Development Partners (GIZ, Trade-mark East Africa, etc) The Leather Regulatory Board in Tanzania; Kenya Leather Development Council, the Leather Apex Society of Kenya; the Leather Value Chain Platform in Rwanda; Uganda Leather Industries Association and Burundi Leather Goods and Footwear Enterprises Federation	3,500,000	• Willingness of abattoirs, slaughter houses/ slabs to modernize infrastructure • Cost of modernizing infrastructure reasonable and affordable • Availability of sufficient resources to undertake the planned activities • Activities Implemented	• Abattoirs, slaughter houses/ slabs • Hides and skins traders • Tanners • Farmers • MDAs (Agriculture and Animal Husbandry)

Strategic Objective Three: Facilitate increased investment in integrated tannery and management of tannery wastes and by-products

Programme Area	Output	Activities	Outcome Indicator	Time-frame	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
Programme One: Support the modernization, expansion and diversification of tanneries capacities - reinforce/establish Credit Guarantee Schemes to enhance technical capacity (including buying equipment) for product diversification	- Credit scheme launched - MOUs signed between local banks and DFIs to implement credit scheme - Brokers and Investment Advisors identified and recruited to set up the SPIV - SPIV established and operationalized - Leather Fund established and capitalized	- Draw lessons from comparator countries to design a regional credit guarantee scheme to enhance technical capacity for product diversification - Invite/lobby regional and international banks and DFIs to put in place a credit guarantee scheme to fund expansion and diversification of tanneries - Incentivize the development of financial tools and services tailored to SMEs - Set up a SPIV (Special Purpose Investment Vehicle) Facility to support investment in diversification, upgrading and modernization of existing facility - Assess the feasibility of setting up leather development fund in Partner States	60 tanneries set up to process wet blue into finished leather - Over \$50 million portfolio loaned out, at affordable interest rates, to players in the leather sector 10 tanneries access credit guarantee scheme 30% annual increase in volumes of finished leather produced locally 10% annual drop in demand for imported finished leather 15% annual increase in number of goods produced using locally manufactured finished leather	2022 - 2029	IDD, EAC Secretariat, Relevant MDAs	The Leather Regulatory Board in Tanzania; Kenya Leather Development Council, the Leather Apex Society of Kenya; the Leather Value Chain Platform in Rwanda; Uganda Leather Industries Association and Burundi Leather Goods and Footwear Enterprises Federation	40,000,000	- DFIs willing to fund credit guarantee scheme - Leather industry moderately risky to lend to - Availability of sufficient resources to undertake the planned activities - Activities Implemented	- Partner States - SMEs in leather goods manufacture - Tanneries - Development Partners
Programme Two: Inter-firm regional cooperation/collaboration in tanning and finishing (contract tanning and finishing)	10 MOUs on inter-firm (tannery) regional cooperation signed annually 10 new contracts for tanning and finishing entered between tanneries (partnerships/collaborations formed), annually - Best practices in tannery management identified, shared and adopted	Organize and coordinate efforts of industry actors to make use of established finishing capacity in the region through inter tanneries trades of semi-finished leather which is currently minimal or non-existent	- At least 5 tanneries work at 80% capacity utilization levels, annually 5 tanneries embrace efficient tannery management technology annually	2020 - 2029	IDD, EAC Secretariat, Ministries of Finance, Trade, Industry, Agri-culture Development Partners (GIZ, Trade-mark East Africa, etc)	The Leather Regulatory Board in Tanzania; Kenya Leather Development Council, the Leather Apex Society of Kenya; the Leather Value Chain Platform in Rwanda; Uganda Leather Industries Association and Burundi Leather Goods and Footwear Enterprises Federation	300,000	- Availability of sufficient resources to undertake the planned activities - Activities Implemented	- Tanneries - SMEs in leather goods manufacture - Partner States

Programme Area	Output	Activities	Outcome Indicator	Time-frame	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
Programme Three: Promote Research, Technology and Innovation through existing tannery infrastructure	- Tanneries and academia identified to champion RTI initiatives - MOUs are signed between the tanneries and leather goods manufacturers and science & technology Universities and RTOs, through MoUs and other appropriate collaborative agreements - An academia-leather industry linkage program designed, launched and operationalized	Establish formal and active institutional linkages between the private sector (tanneries and leather goods manufacturers), science & technology Universities and RTOs, through MoUs and other appropriate collaborative agreements	5 priority areas for research identified and researched extensively 10 research programs designed and implemented (between the Universities and the Private Sector - Tanneries) to address priority areas of research	2020 – 2029	IDD, EAC Secretariat, Ministries of Agriculture and Animal Husbandry Development Partners (GIZ, Trade-mark East Africa, etc)	The Leather Regulatory Board in Tanzania; Kenya Leather Development Council, the Leather Apex Society of Kenya; the Leather Value Chain Platform in Rwanda; Uganda Leather Industries Association and Burundi Leather Goods and Footwear Enterprises Federation	500,000	- Commitment from Universities and Tanneries to enter into MOUs - Availability of sufficient resources to undertake the planned activities - Activities Implemented	- Tanneries - Universities - RTOs - Development Partners

Programme Area	Output	Activities	Outcome Indicator	Time-frame	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
Programme Four: Promote cleaner tanning techniques in the EAC Region, to mitigate environmental and social risks	- National (and regional) standards on tannery effluent treatment developed and operationalized - Acceptability of alternative tanning techniques (waterless tanning, and use of wattle trees and cashew nuts – organic tanning) researched, identified, promoted and commercialized	- Design and Implement a Regional Cleaner Tanning Technologies Scheme/Project - Promote awareness on cleaner tanning technologies in all tanneries - Study, in depth, the use of alternative tanning techniques (waterless tanning, and the use of cashew nut shells and rejected tea leaves - organic tanning) - Initiate campaign on massive production of wattle trees in designated areas in the Region (for organic tanning)	5 tanneries with fully established or upgraded well designed Effluent Treatment Plants 20 tanneries trained on alternative tanning techniques 10 tanneries supported to adopt alternative tanning techniques 5% annual decrease in pollution of water bodies and other natural resources 100 acres of land, identified and planted with wattle trees to promote organic tanning	2020 – 2029	IDD, EAC Secretariat, Ministries of Industry, Water, Environment, NEMA	The Leather Regulatory Board in Tanzania; Kenya Leather Development Council; the Leather Apex Society of Kenya; the Leather Value Chain Platform in Rwanda; Uganda Leather Industries Association and Burundi Leather Goods and Footwear Enterprises Federation	2,000,000	- Willingness of Tanneries to embrace organic tanning - Availability of sufficient resources to undertake the planned activities - Activities Implemented	- Tanneries - Partner States - SMEs
	- Code of practice on effluent management developed and operationalized - Study report on centralized treatment plants/clustering to guide development of code on effluent management - Study report on greening tanneries to guide development of code on effluent management - Awareness campaigns on best practices in effluent management	Institute a code of practice on effluent treatment and management	30 tanneries on trained on best practices in effluent management 30 tanneries embrace code of practice on effluent management 30 tanneries clustered to benefit from industrial waste management	2020 – 2023	IDD, EAC Secretariat, Ministries of Industry, Water, Environment, NEMA	Leather associations/ societies/ platforms	500,000	Availability of sufficient resources to undertake the planned activities	Tanneries
	Facilitate (technically and financially) tanneries to acquire technology for transforming gelatine into relevant industrial products (including glue)	Number of tanneries adopting new technology for transforming gelatine	- Diversity and quantities of industrial products manufactured from gelatine - Number of linkages between tanneries and users of products from gelatine	2020 - 2023	IDD, EAC Secretariat, Ministries of Industry, Water, Environment, NEMA	Leather associations/ societies/ platforms	500,000	Availability of sufficient resources to undertake the planned activities	Tanneries

Strategic Objective Four: Develop Footwear Manufacturing Capacities to increase production for domestic and export markets.

Programme Area	Outputs	Activities	Output Indicator	Time-frame	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
Program One: Upgrade/ establish a Modern Footwear Training Institute with an industrial environment for the development of skilled workforce (training cum-manufacturing facility)	- Training institutes for upgrading/ establishing identified and upgraded - Requisite human resource identified and recruited - Funds mobilized for upgrading facilities 10 market driven training modules aligned to international standards, developed and certified annually for rolling out	- Design TOR for feasibility assessment of setting up a modern footwear training institute - Recruit consultant for conducting feasibility assessment - Conduct feasibility assessment for setting up modern footwear training institute - Approve location of setting up training centre - Set up and Certify the centre	10 Modern certified footwear training institutes operationalized in the EAC Region 3,000 SMEs/students enrolled at the training institute on an annual basis 2,000 SMEs certificates issued on an annual basis 30% annual increase in skilled workforce (footwear manufacturers) on the market 40% annual increase in the quality of locally manufactured footwear	2020 – 2025	IDD, EAC Secretariat, Ministries of Trade, Education, BTVETs	Leather associations/ societies/ platforms	10,000,000	Availability of sufficient resources to undertake the planned activities	- Partner States - Leather Training Facilities - SMEs in footwear and leather goods manufacturing - BTVET - Development Partners
Program Two: Development of specialized footwear and leather goods Manufacturing zones/ Parks	- At least two footwear manufacturing zones/ parks established in each Partner State - The parks core infrastructure (road, power, waste disposal) - Standard for incentives for the parks designed and operationalized - Model private sector approach for developing the leather parks designed and operationalized	- Design TOR for feasibility assessment of specialized footwear manufacturing zones/parks - Recruit consultant for conducting feasibility assessment - Conduct feasibility assessment of specialized footwear manufacturing zones/parks - Approve location of setting up specialized footwear manufacturing zones/parks - Establish zones	200 local footwear and leather products manufacturers establish in the zones/parks 30 foreign (footwear) brands, establish in the zones/parks 20% annual increase in FDI and Revenue from shoe and leather goods manufacturing in the Region 20% annual increase in production capacity of shoes manufactured in the EAC Region 20% annual increase in employment in the footwear manufactures	2020 – 2025	IDD, EAC Secretariat, Ministries of Industry, Trade, Finance, Investment Promotion Agencies (IPAs)	Leather associations/ societies/ platforms	30,000,000	Availability of sufficient resources to undertake the planned activities	- Partner States - SMEs in footwear and leather goods manufacturing

Programme Area	Outputs	Activities	Output Indicator	Time-frame	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
Program Three: Establish national/regional system for collective purchase of raw materials, inputs and accessories and joint production to meet bulk order from the international market	- Each Partner State allocates \$300,000 annual budget to collective purchasing of accessories, raw materials and inputs in bulk - Supplier identified and recruited for collective purchasing of accessories, raw materials and inputs in bulk - Revolving fund for purchase and sell of accessories, raw materials designed and operationalized	- Determine/assess the requirements (volumes and value) of accessories, raw materials and inputs required by SMEs in the footwear manufacturing sector, on annual basis - Through a public procurement, solicit/recruit a firm to purchase required raw materials, inputs and accessories - Institute a revolving fund, for the purchase and sell of accessories, raw materials and inputs required by SMEs in the footwear manufacturing sector	30% annual increase in volumes of accessories, raw materials and inputs on the market 1,000 SMEs access accessories, raw materials and inputs, through this program, annually 40% increase in affordability of accessories	2020 – 2025	IDD, EAC Secretariat, Ministries of Industries of Ministries of Industry, Trade, Finance, Police, Customs, Investment Promotion Agencies (IPAs)	Leather associations/societies/platforms	800,000	Availability of sufficient resources to undertake the planned activities	- Partner States - SMEs in footwear and leather goods manufacturing
Program Four: Attract and match at least 10 anchor global brands in footwear manufacturers/global buyers with local SMEs	- Investment needs (for new markets) of selected SME identified - Matching grants provided to support firms certify their products - Proposals for SME investment in new markets prepared and circulated among development partners and other stakeholders - Global anchor companies in footwear and leather goods manufacturing identified	- Assess investment needs (for new/alternative markets) of at least 10 SMEs in each of the five Partner States and scout for investment new market opportunities for the SMEs - Support establishment of linkages between SMEs and International Brands/investors - Subscribe to international leather market survey reports - Develop and maintain a market information dissemination system	10 anchor global brands in footwear manufacturers matched with local SMEs, annually 100 SMEs in each Partner States access substantial investment in new markets through renowned international leather platforms	2020 - 2029	IDD, EAC Secretariat, Ministries of Trade, Industry, Finance	Leather associations/societies/platforms	1,500,000	- Availability of sufficient resources to undertake the planned activities - Activities Implemented	- SMEs - Partner States

Programme Area	Outputs	Activities	Output Indicator	Time-frame	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
Program Five: Expand and diversify market access to include new markets (including growing confidence in locally manufactured leather goods	- The East African International Leather and Leather Products EXPO commissioned and launched - The Leather and Leather Products Trade Fair commissioned and launched in each Partner State - Annual market intelligence reports on global investment opportunities for SMEs - Pilot regional branding campaign commissioned in Partner States - Investment conference on footwear and leather products in the EAC held annually	- Design program for launching the Leather and Leather Products EXPO, trade fairs and Investment Conference - Recruit hotels and other service providers to host the above events - Support the development of Regional brands for manufactured leather products originating from the EAC - Monitor and analyze investment trends and investment promotion for locally produced leather goods	1,000 SMEs attend the EXPO, trade fairs and investment conference 10 new markets that trade locally manufactured leather goods established in the region 50 partnerships formed between local SMEs and International Brands/investors as a result of the EXPO and investment conference 20% annual increase in public confidence in locally manufactured leather goods - Regional brands adopted by at least 50 SMEs in the region	2020 - 2029	IDD, EAC Secretariat, Ministries of Trade, Finance	The Leather Regulatory Board in Tanzania; Kenya Leather Development Council, the Leather Apex Society of Kenya; the Leather Value Chain Platform in Rwanda; Uganda Leather Industries Association and Burundi Leather Goods and Footwear Enterprises Federation	600,000	- Capacity of Partner States to implement policies on leather goods manufactured in their jurisdiction - Availability of sufficient resources to undertake the planned activities - Activities Implemented	- SMEs - Partner States

Strategic Objective Five: Enhance productivity of small scale producers (SMEs) of footwear manufacturers and other leather goods producers to raise their export capabilities, and contribution to employment and poverty reduction.

Programme Area	Activities	Output	Output Indicator	Time-frame	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
Programme One: Promote establishment of SME Footwear, Accessories and Leather Goods Clusters to facilitate formalization, business partnerships, improvement of product quality and generation of sustainable incomes for small scale entrepreneurs and start-up businesses. (Set up and certify common manufacturing facilities)	• Certified training modules for the common manufacturing facilities • Fully staffed common manufacturing facilities, guided by needs assessment • Upgraded facilities and fully equipped with requisite machinery, guided by needs assessment • MOUs signed between facilities and DFIs for upgrading, certifying and provision of services to SMEs • Capacity building reports on SMEs in various leather goods manufacturing disciplines • Enhanced industrial productivity (leather manufacturing) among SMEs	• Map existing SME clusters in leather sector, to identify cluster needs and opportunities to leverage using clustering as a tool • Undertake an inventory of existing structured/upgraded be transformed/upgraded into regional common leather goods manufacturing facilities • Identify and partner with DFIs to upgrade (staff and equipment) and certify common leather goods manufacturing facilities • Reinforce the capacities and capabilities of identified common manufacturing facilities/institution	• 400 SMEs enrolled at common manufacturing facilities, annually • 250 SMEs certified by the common manufacturing facilities, annually • 5 DFIs agree to fund upgrading of common manufacturing facilities • 20% annual increase in improvement in entrepreneurial skills of SMEs • 20% annual increase in the quantity and quality of leather products produced by SMEs	2022 - 2029	IDD, EAC Secretariat, Ministries of Agriculture and Animal Husbandry, Ministries of Trade, Bureaus of Standards and Revenue Authorities	The Leather Regulatory Board in Tanzania; Kenya Leather Development Council, the Leather Apex Society of Kenya; the Leather Value Chain Platform in Rwanda; Uganda Leather Industries Association and Burundi Leather Goods and Footwear Enterprises Federation	3,500,000	• Presence of structures that can be transformed into manufacturing facilities in Partner States • Availability of sufficient resources to undertake the planned activities • Implemented	• Partner States • Common Manufacturing Facilities • SMEs in leather goods manufacturing • BT/VET • Development Partners

Programme Area	Activities	Output	Output Indicator	Time-frame	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
Programme Two: Enhance access to finance among SMEs, through local and regional development banks	- Study report on risks associated with lending SMEs in leather goods manufacture - Diversity and innovativeness of Financial Products targeting SMEs in leather goods manufacture - Criteria for selection of 100 entrepreneurs designed and implemented - Capacity building programme (entrepreneurship) designed and implemented	- Commission a study, to understand in detail the risks associated with lending to SMEs engaged in the local production of leather goods and footwear - Engage local and regional development banks to design products that suit the needs of SMEs in leather goods manufacture - Design and roll-out program for grouping SMEs to access loans from local and regional development banks - Provide entrepreneurial capacity building (combined with IT) for at least 100 entrepreneurs in each of the Partner States	15 local and regional banks express interest in financing SMEs in leather goods manufacture \$10million Portfolio of loans to SMEs % increase in leather industry sector employment - At least 50 employees of financial institutions trained per annum on the leather sector - financial needs and the development of adapted financial tools	2020 - 2029	IDD, EAC Secretariat, Ministries of Agriculture and Animal Husbandry	The Leather Regulatory Board in Tanzania; Kenya Leather Development Council, the Leather Apex Society of Kenya; the Leather Value Chain Platform in Rwanda; Uganda Leather Industries Association and Burundi Leather Goods and Footwear Enterprises Federation	10,000,000	- Willingness of Partner States to forego taxes from the export of wet blue - Availability of sufficient resources to undertake the planned activities - Activities Implemented	- Partner States - SMEs in leather goods manufacture - Tanneries - Development Partners

Strategic Objective Six: Develop skills, technology, R&D capabilities in order to improve competitiveness and innovation in the sector.

Programme Area	Outputs	Activities	Output Indicator	Time-frame	Implementing Agency	Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
<u>Programme One:</u> Identify and fill all human resource capacity gaps in leather training institutes	• Reports indicating capacity gaps and specific numbers to be trained for various activities • Course curriculum developed for various disciplines, based on skills gap assessment, assessment standards for certification agency and identification of ways to train (on-job, theory, mix)	• Conduct a skills gap and needs assessment study covering the entire value chain, and develop course curricula, assessment standards and infrastructure requirements for training programs	• All capacity gaps in leather training institutes filled	2023 - 2026	IDD, EAC Secretariat, Ministries of Trade, Education, BTVETs Development Partners (UNIDO, etc) The Leather Regulatory Board in Tanzania; Kenya Leather Development Council, the Leather Apex Society of Kenya; the Leather Value Chain Platform in Rwanda; Uganda Leather Industries Association and Burundi Leather Goods and Footwear Enterprises Federation	500,000	• Availability of sufficient resources to undertake the planned activities • Activities Implemented	• Partner States • Leather Training Facilities • SMEs in leather goods manufacture • BTVET • Development Partners
<u>Programme Two:</u> Upgrade the capacity of ALL leather training institutions	• Training courses on leather upgraded to better respond to the needs of the industry • Training Facilities for upgrading identified • Training facilities upgraded • A degree program at universities for leather technologist designed and introduced	• Review and update curricula of training institutes • Provide improved tools and updated training syllabi to training facilities • Mainstream market driven leather training courses in higher educational institutions universities	• 10 training facilities certified in leather training and their roles modified/ upgraded to enable broader development coverage in order to respond to the technical needs of the leather and leather products' producers • 500 trainees (SMEs and individuals) enrol at the training institutes annually • 10 leather technologists enrolled annually	2023 - 2026	IDD, EAC Secretariat, Ministries of Trade, Education, BTVETs Development Partners (UNIDO, etc) The Leather Regulatory Board in Tanzania; Kenya Leather Development Council, the Leather Apex Society of Kenya; the Leather Value Chain Platform in Rwanda; Uganda Leather Industries Association and Burundi Leather Goods and Footwear Enterprises Federation	5,500,000	• Availability of sufficient resources to undertake the planned activities • Activities Implemented	• Partner States • Leather Training Facilities • SMEs in leather goods manufacture • BTVET • Development Partners

Strategic Objective Seven: Strengthen governance, policy, regulatory systems, and institutional coordination mechanism and support services for a conducive business environment.

Programme Area	Outputs	Activities	Output Indicator	Time-frame	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
<u>Programme One:</u> Strengthen/establish National Leather Development Councils/Boards/Institutes, and Private Leather Apex Societies (a union of all Leather Associations) in ALL Partner States	- State Agency identified and designated to lead implementation of the EAC Leather and Leather Products Strategy - National Leather Sector Forum established and operationalized - Regional Leather and Leather Goods Forum established - Implementation of EAC Leather and Leather Products Strategy launched - One overarching body to coordinate sector activities operationalized in States that do not have. - Task order/Roles for one overarching body to coordinate sector activities - Bill establishing overarching Body	- Identify and designate national lead agency to manage and coordinate the Strategy - Assess the feasibility of establishing one overarching body for sector coordination, in Partner States that do not have one - Conduct study tours (to Partner States which have succeeded in creating and operationalizing one overarching body to coordinate sector activities - Facilitate meetings/workshop for the creation of one overarching body to coordinate sector activities - Design and implement a capacity building program, for continuous human resource development of the institutions/bodies - Conduct strategy meetings with Assoc. and MDAs to strengthening capacity of key institutions	50% improvement in coordination of sector activities in Year One of establishing overarching body	2020 - 2022	IDD, EAC Secretariat, ALL relevant Ministries	The Leather Regulatory Board in Tanzania; Kenya Leather Development Council, the Leather Apex Society of Kenya; the Leather Value Chain Platform in Rwanda; Uganda Leather Industries Association and Burundi Leather Goods and Footwear Enterprises Federation	700,000	- Availability of sufficient resources to undertake the planned activities - Activities Implemented	- Partner States - Apex Leather Associations - Development Partners

Programme Area	Outputs	Activities	Output Indicator	Time-frame	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
Programme Three: Develop national policies and institutional mechanisms to implement the Summit directive on Public Procurement of leather products from producers/manufacturers within the region	- National focal persons established - Partner States issue Directives or Legislation on public procurement of locally manufactured leather goods - Monthly EAC Leather Dressing Campaign Introduced - Increased awareness on public procurement of locally manufactured leather goods - Periodic M&E	- Facilitate study tours around the EAC Region and comparator RECs, to benchmark best practices in public procurement of leather goods - Identify and analyse opportunities for pooled procurement of leather products for the public sector - Design and implement program for instituting public procurement - Facilitate Partner States to issue ministerial directives to all procuring entities to give preference to locally manufactured leather goods	50 SMEs benefitting from public procurement policy on locally manufactured leather goods in Year One - US\$ 300,000 portfolio (budget for procurement of goods) allocated to public procurement of locally manufactured leather goods 30% of army, police and schools' uniforms (leather products) sourced locally in year 1	2020 – 2029	IDD, EAC Secretariat, Ministries of Agriculture and Animal Husbandry	The Leather Regulatory Board in Tanzania; Kenya Leather Development Council, the Leather Apex Society of Kenya; the Leather Value Chain Platform in Rwanda; Uganda Leather Industries Association and Burundi Leather Goods and Footwear Enterprises Federation	600,000	- Capacity of Partner States to implement policies on leather goods manufactured in their jurisdiction - Availability of sufficient resources to undertake the planned activities - Activities Implemented	- SMEs - Partner States
Programme Four: Harmonized Regulatory Framework	- Harmonized regulation on hides and skins and leather processing instituted - Adoption of harmonized regulation by Partner States - Awareness campaigns on popularizing the harmonized regulation	- Develop Terms of Reference for the preparation of a harmonized regulation on hides and skins and leather processing - Recruit consultant	50% improvement and enforcement of activities governing the leather industry	2020 - 2022	IDD, EAC Secretariat, ALL relevant Ministries	The Leather Regulatory Board in Tanzania; Kenya Leather Development Council, the Leather Apex Society of Kenya; the Leather Value Chain Platform in Rwanda; Uganda Leather Industries Association and Burundi Leather Goods and Footwear Enterprises Federation	500,000	- Availability of sufficient resources to undertake the planned activities - Activities Implemented	- Partner States - Apex Leather Associations - Development Partners

Programme Area	Outputs	Activities	Output Indicator	Time-frame	Implementing Agency		Indicative Resources (USD)	Assumptions	Beneficiaries (Target Groups)
					Lead	Support			
Program Five: Develop/establish a joint monitoring and surveillance exercises of imported footwear, by the public agencies and the footwear associations to control pirated and counterfeited brands of footwear coming into the region	- Joint monitoring and surveillance exercises conducted on quarterly, bi-annual and annual basis - Joint monitoring and surveillance reports	- Develop TOR for joint monitoring and surveillance exercises of imported footwear - Determine composition of joint monitoring and surveillance Team - Institute multi-sectoral monitoring and surveillance Team - Conduct periodic monitoring and surveillance exercises	20% annual decrease in counterfeit and pirated products on the market coming into the region	2020 – 2029	IDD, EAC Secretariat, Ministries of Industries of Ministry of Industry, Trade, Finance, Police, Customs, Investment Promotion Agencies (IPAs)	Leather associations/societies/platforms	200,000	Availability of sufficient resources to undertake the planned activities	- Partner States - SMEs in footwear and leather goods manufacture

ANNEX II: GENESIS OF DE-FIGURED HIDES AT MAJOR SLAUGHTER COMPLEX IN THE REGION

- **Stunners:** Stunners are the most senior members in the racket that disfigures hides. They contribute to poor ripping practices, by demanding a sizeable portion of meat around the navel area of a cow or bull, from the flayers. The piece of flesh is removed together with the hide and to give room for this, flayers have to make a C curve round the naval, giving the hides the characteristic non-overlapping shape (See diagram above).
- **Throat slitters:** Throat slitters are the second most senior members of the racket. Their role is to open/cut the animal's throat. They contribute to poor ripping practices, by taking a long and fleshy part of hide around the neck, further disfiguring the hide/s.
- **Flayers:** Flayers remove the hide from the carcass. They work in pairs and are remunerated per animal they flay. This mode of remuneration, inadvertently, compromises the quality of the hides and skins, flayed. At US\$ 0.5 per animal, this translates US\$ 0.25 per flayer per animal. To earn more, the flayers (in their different pairs) are forced to compete, to flay more animals, in the process, compromising the quality of hides removed (with conspicuous deep cuts). Flayers further disfigure the hides, by removing huge chunks of the hide around the testicles and around the vulva, to sell the pieces as dog meat or to individuals who make samosas.

In Tanzania, flayers are auxiliary employees of the Government. Their terms of engagement are temporary, and duty-bound to the butchers, to whom they are subcontracted, to flay animals. Tanzania has secondary markets (e.g. in pugu) where live animals are sold. At these markets, butchers buy animals, which are labelled (painted a mark/sign, designated by a butcher) and later transported to abattoirs for slaughter. At the abattoirs, each butcher has his own flayers, whom he contracts to flay animals that carry his label/mark. These flayers, however, are unreliable, and cannot last more than 2 to 3 months in the flaying business. Sadly, some of them have in the past, benefitted from training on flaying, offered by the Government. This knowledge, however, has since been wasted, in a change of career, involving hawking petty products, like roasted cassava, fried meat/muchomo, and soup.

- **Droppers:** These are unlicensed flayers, who stand in for flayers (as their assistants) to finish off flaying, as the main flayers (who work in pairs), pick new carcasses. Droppers are not employed by the slaughter house, this group operates under the full knowledge of the management of the slaughter house, who also task them to clean the slaughter house, without pay. For pay, they cut off a chunk of hide at the tail end. Some managers of the slaughter house benefit from the sale of these pieces, which are sold to the fleshing team or as dog feed.
- **Fleshing Team:** These are organized groups, operating from slaughter house hide and skin stores and within the general slaughter complex, with full knowledge of the slaughter house management. The fleshing/cuttings are sold in cooking fat containers popularly known as kasuku's. A 2kg container retails at US\$ 2. Large hides produce one and half containers while small hides produces half a container. On average, a slaughter of 600 animals a day at the complex, produces about 400 containers earning the fleshing team US\$ 800 per day.

ANNEX III: DOCUMENTS REVIEWED

- Project Proposals in the Selected Industrial Value Chains in EAC (2016)
- Partner States Policies and Strategies on Leather and Leather products including:
 - Rwanda Livestock Masterplan (2017)
 - Republic of Rwanda (2016): Strategy to Transform the Textile, Apparel and Leather Sectors
 - Tanzania Leather Sector Development Strategy (2016 – 2020)
 - Tanzania Export Development Strategy-Leather Sector (2004)
 - A Study on Leather Sector Investment Status in Tanzania (2015)
 - Kenya Leather Industry- Diagnosis, Strategy and Action Plan (2015)
 - Feasibility Study for the Kenya Leather Park Proposed For Machakos County (2016)
 - Uganda National Leather and Leather Products Strategy (2015)
 - UNIDO Programs to Strengthen the Leather Sector in Uganda
 - Uganda Leather Sector Profile (2012)
 - A profile of South African Hides and Skins and Leather Market Value Chain (2011)
 - Leather Skills manual (April 2017)
 - The Leather Tannery Industries in Uganda (2009)
 - Katende-Magezi. E (2017) "The Impact of Secondhand clothes and shoes in East Africa CUTS International, Geneva
 - USAID Trade Hub (April 2017) The Leather Sector in Kenya; Skills Gap Assessment
 - African Development Bank (2018) Africa to Africa Investment: A First Look
- Campaigns by Partner States' to Buy locally (Made in Kenya, made in Rwanda, made in Uganda, made in Burundi, made in Tanzania, Made in the EAC)
- Progress reports on phasing out second hand footwear
- EAC Industrialization Strategy and Policy (2012-2032)

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