

How to revive Nigeria's neglected Leather Industry

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Summary

Apart from the abundance of natural and human resources, Nigeria represents the largest economy in Africa with equally huge market given its population size-180 million. Despite these comparative advantages, the country has underperformed in charting an inclusive and sustainable growth strategy over the decades. A cursory look at the structure of the Nigerian economy reveals that one of the leading sectors in Nigeria driving national output, employment and export is agriculture sector. The sector, which currently accounts for about 24% of GDP, has been acclaimed to have the potential of contributing about 65% to employment generation and 50% export share if its vast and enormous value-adding opportunities in agro-industry are explored. Nigeria has the largest resource of goatskin and kidskin in Africa representing 46% and 18% of total in West Africa and Africa, respectively. There is need for value addition in Nigeria's leather value chain to upgrade its position in the regional and global trade of leather commodities with varying implications on intra- and inter-trade, backward integration, employment generation, industrial deepening, increased productivity and competitiveness. However, the lingering challenges in the industry such as structural barriers, poor visibility and lack of government intervention have led to revenue loss of about \$300 million annually. Given the focus of the government towards economic diversification and support for the implementation of an agriculture-led industrialization as specified in the Economic Recovery and Growth Plan (ERGP), the government needs to explore the inherent opportunities in the leather industry through promoting public-private partnership, providing fiscal incentives as well as enhancing technology and human capital development in the industry.

Introduction

Nigeria's development narrative and economic growth pattern underscore an interesting case of structural misalignment and fundamental disequilibrium (Chete, 2013). The overall impact of running a mono-product economy became more evident in the Nigerian economy as the shock in the global oil market in 2015 led to the plunge into the worst economic recession in 29 years. This clearly necessitates the need to focus on strategies geared towards diversifying government revenue base so as to reduce the impact of global shocks on the Nigerian economy.

However, it is pertinent to note that, while crude oil constitutes only 9% of the country's Gross Domestic Product, it accounts for over 75% of

government revenue and 96% of its foreign exchange earnings. This implies that the rapidly dynamic and volatile nature of the oil market makes it important for the government to explore the inherent opportunities in other viable sectors of the economy towards reversing the effects of the economic crises arising from shocks in the global oil market and returning the economy to a sustainable growth path. One of the leading sectors in Nigeria driving national output, employment and export is agriculture sector.

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enormous value-adding opportunities in agro-industry are explored. The livestock agro-industrial segment, especially the leather industry, presents an even more compelling narrative of revenue generation and industrial deepening through value and supply chain integration. Having one of Africa's largest livestock population, the leather industry in Nigeria has huge potentials within the global and regional context. Despite the abundance of natural and human resources, Nigeria has underperformed in charting an inclusive and sustainable growth strategy by leveraging the existing opportunities in the leather industry.

Given the importance of the Leather Industry in Nigeria to improve government revenue, boost employment and increase foreign earnings, what are the emerging opportunities/sources of growth in Nigeria Leather Industry? How can these be leveraged through policy coordination? what are the constraints limiting these sources of growth in Nigeria? This policy brief, therefore, seeks to highlight the innate opportunities and the lingering bottlenecks limiting the leather industry potentials in Nigeria with a view to exploring the various economic opportunities that abound in the industry.

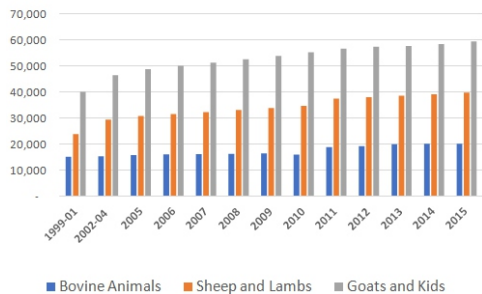
The Nigerian Leather Industry: Identifying market potentials.

With about 61 million units, Nigeria has the largest resource of goatskin and kidskin in Africa representing 46% and 18% of the total in West Africa and Africa, respectively. Being a dominant producer in Africa, the country also contributes about 60% to the West African production of goatskin and kidskin. Domestically, the industry represents the second major earner of foreign exchange after oil with total export of tanned skins amounting to about \$240 million in 2015. With over 50 million skins of animals being processed annually by tanneries together with other

related activities, the leather industry contributes about 24% of the total Agricultural sector contribution to the GDP in Nigeria.

However, while Nigeria is a net exporter of raw hides and skins including semi-processed leather, it is also a net importer of finished leather products with total imports of about \$500 million worth leather products annually. Nigeria has a growing comparative advantage to be competitive in leather and leather related products yet the contribution of this industry to global/regional trade in terms of value chain integration and finished leather products remains very marginal. Local production of various leather goods is struggling to be competitive with imported Chinese goods. Local producers are however trying to keep pace with imports through increased use of synthetic leather and other cheaper accessories and components.

Figure 1: Nigeria's livestock production (thousand heads)



Source: Food and Agriculture Organization

Asides the logistics segment, the leather processing sector employs over 750,000 workers with about 500,000 workers in the finished leather goods sector. The leather value chain market is huge with immense potential of unlocking value across the industry and reducing unemployment rate with a projected foreign exchange earnings of over \$1 billion by the year 2025. This highlights the strategic importance of the industry as a viable foreign exchange earner.

Exploring the opportunities in the leather industry will diversify the government revenue base and help cushion the effects of the fluctuation in the global oil market as well as create jobs for the teeming youths in Nigeria. Therefore, there is a need for improvement in value addition in Nigeria's leather industry to upgrade its position in the regional and global trade of leather commodities.

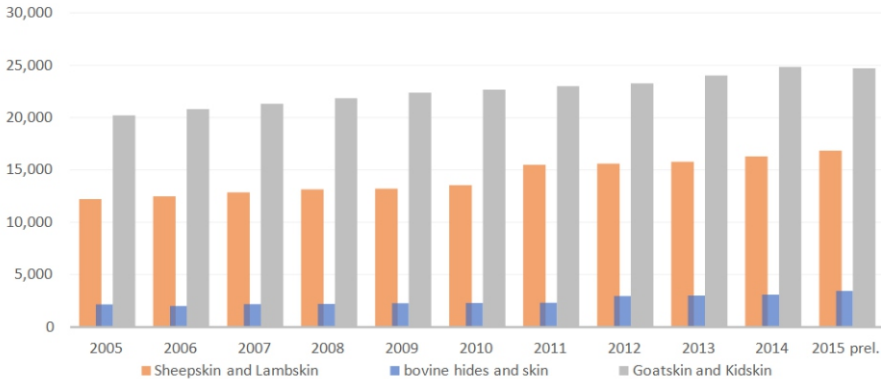
Given that designing policy should go together with implementation and enforcement strategies especially along the value chain, the need to engage policymakers in mitigating policy risks by providing the information that will improve decision-making cannot be overemphasized. The goal should be to transform Nigeria from a producer and

finished leather products to compete globally.

What Lessons can Nigeria learn from other leather producing countries?

Several developments in the global economy underscore the imperative for Africa to industrialize and engage in the production of manufactured and high value-added leather products. To this end, the leather industry emerges as a key industry due to its ability to foster forward and backward linkages, dynamic economies of scale, innovation and technology diffusion and positive spillover effects within and across sectors. Promoting structural change hinges on sound industrial policies and selective government interventions that redirect an economy's production structure towards more productive

Figure 2: Hides and Skin Production in Nigeria (Thousand Pieces)



Source: Food and Agriculture Organization

exporter of semi-processed hides and skins to a producer of finished leather products for both domestic and export markets. Therefore, there is a need to revitalize the Nigerian leather industry as the nation looks inwards to generate additional revenue from the non-oil sector and enhance the ability of locally

sectors as shown in the country analysis in subsequent paragraphs.

Leather Industry in Ethiopia

Ethiopia is endowed with a cattle population of about 42 million. The leather industry in Ethiopia was established to capitalise on the country's comparative advantage in livestock resources. In the light of this, the country's industrial policy prioritizes the leather industry as one of the sub-sectors that can foster structural change in the economy. The Ethiopian government has over the years made conscious efforts towards ensuring a more productive leather industry by engaging several international agencies in policy dialogue and sharing of best practices and industry experiences in the development of its industrial policy. This led to the implementation of a technical assistance project aimed at upgrading tanneries and leather laboratories.

Furthermore, the government organized international trade fair collections to boost market access. The government has also been involved in productivity enhancement of domestic firms, through technology transfer and boosting managerial skills. These interventions have led to significant improvement in the industry such as the establishment of 29 additional tanning companies. Export performance has also been remarkable, as the sector experienced rapid growth in export revenues from US\$44 million in 2010 to US\$110 million in 2016 (UNIDO, 2016). In addition, foreign direct investment in the leather industry has increased from US\$46,000 in 2010 to US\$15,236,250 in 2016, primarily due to inflows from China and India (UNIDO, 2016). This, however, shows the extent to which specific industry interventions can contribute to the improvement in government revenue as well as the development of an industry as viable as the leather industry across Africa.

Leather Industry in Sudan

The advent of relative peace after two decades of North/South conflict provided the country

with a golden opportunity to unleash its vast potential. A country with a rich agricultural and livestock resource with great export potential and the goodwill of donors and investors to support the peace process. Sudan is endowed with a livestock population of about 57 million.

The government of Sudan created broad strategic interventions in the leather industry designed through a participatory process aimed at achieving an increase in value addition, employment creation, export and fiscal revenue, increased production of quality leather and leather related products. This inclusive approach became imperative in building an understanding of the challenges which were negatively impacting on the performance of Sudanese leather value chain, despite the immense potential it holds. The concept stresses the importance of value addition at each stage, thereby treating production as just one of several value-adding components of the chain.

The Sudanese government also increased export tax of raw hides and skin from the initial 5% to 15% to discourage export of raw hides and skin and encourage local value addition before export. These policies, however, resulted in the establishment of additional 35 tanneries from the initial 8 tanneries that existed and also helped increase the number of finished leather products exported. Notably, the export value increased from the initial US\$8 million in 2004 to about US\$55 million in 2016. The Sudanese Export processing zones (EPZ) have been used for promoting exports especially in countries with high trade barriers, cumbersome business regulations, and weak infrastructure. These interventions and government policies in the Sudanese leather industry have helped diversify the country's revenue base and have created about 8,000 additional jobs between 2004 and 2016.

Lingering Constraints of Leather Industry in Nigeria

Despite being the second largest source of foreign exchange earning in Nigeria, the industry is still faced with various challenges. The neglect of the leather industry resulted in an annual revenue loss of about US\$300 million. This, therefore, necessitates the need for government to encourage both local and foreign investors to establish manufacturing companies that would further deepen the industry's value chain for the production of high-quality leather product so as to become globally competitive. However, the success of the leather industry in Nigeria hinges on government efforts in addressing various bottlenecks that have continued to undermine the potential of the industry. Nigeria Leather industry is faced with various **specific sectoral challenges which include:**

Structural Barriers – One of the major challenges facing the leather industry in Nigeria is the high cost of production occasioned by rigorous licensing procedures as well as high logistics costs. Also, the high cost of alternative energy remains a major challenge as the industry players decry inadequate power supply to power production machines thereby increasing the price of leather products despite Nigeria's comparative advantage in the industry. Tough investment climate, the high cost of credit and low finished goods standards for exports have also hindered the leather industry in Nigeria.

Poor Industry Visibility – The Nigerian leather industry lacks a strong and positive brand image among consumers and investors, as leather is a noble material that is becoming increasingly popular with designers in the fashion world and products despite Nigeria's comparative advantage in the industry. Tough investment climate, the high cost of credit and low finished goods standards for exports have also hindered the leather industry in Nigeria.

Highly fragmented Cattle rearing market – Nigeria's cattle rearing industry is dominated by small and medium-sized players. Also, the existence of numerous abattoirs in the country remains a challenge for the industry which has limited market development capacities of tanneries and leather product manufacturers leading to difficulty in the sourcing for raw materials. Shortage of Raw Materials – The existence of cross-border illicit trade and misuse of the raw material due to lack of awareness, result in a low recovery rate and ultimately shortages of raw hides and skin. Also, Nigeria has a lucrative local food market for raw hides and skins, called "Ponmo," which is considered a delicacy across the country. Currently the demand for the consumable hides and skin "Ponmo" competes with the demand for tanning and this has caused a hike in the price as well as a shortage of raw material without necessarily taking the quality of product into consideration.

The absence of efficient government interventions for industry clusters – Despite previous futile interventions by the government in the leather industry, there is still need for effective interventions in the industry. The lack of such interventions has led to a significant decline in productivity and quality control. Also, inefficient regulatory framework and inability to access capital have continued to limit the industry's potential. Weak tanning and leather preparation standards – The existence of a weak extension service, improper preservation techniques and technical inefficiency of staffs gives rise to the poor quality of raw material which hinders tanneries' performance to fully utilize its manufacturing capacity for leather products. Locally tanned hides and skins tend to be of poor quality products and produce a high percentage of low-grade products which can lead to revenue losses. Quality of these raw materials has implications on production costs and sales prices, which determine producer competitiveness in the global market.

Policy Options - The Way Forward

Given Nigeria's endowment in the production of livestock, hides and skins in Africa, it emphasizes the need for the government to promote sustainable diversification of the economy through public-private coordination in the leather industry in order to boost competitiveness in terms of prices, quality and entry into domestic, regional and international markets. Supporting the implementation of an agriculture-led industrialization as specified in the Economic Recovery and Growth Plan (ERGP), we, therefore, need to explore the synergies between agricultural and industrial sectors in Nigeria. However, in order to achieve this, some of the available policy options include:

Promoting Public-Private Partnership Coordination in the Industry

In addressing the challenges inherent in the leather industry in Nigeria, private sector investment is required to improve on the various factors of production across the leather value chain. This therefore calls for an urgent need to promote a holistic coordination between the government and the private sector in order to reduce cumbersome and bureaucratic procedures that constrain private investment and growth in the leather industry. This will relieve the government of any major cost associated with financing infrastructural development in the leather industry and provide incentives to willing investors in operationalizing and deepening of the leather value chain.

Provision of Competitive Fiscal Incentives

In developing a strategic framework for the leather industry in Nigeria, the government needs to institute investment friendly policies and fiscal incentives such as tax holidays to drive competitiveness in the leather industry. These incentives can be categorized based on investment type and worth in order to ensure inclusiveness for both local and foreign investors in the industry. This will increase tax

returns to the government as more industry operators will be attracted into the tax net. However, there is also a need for the establishment of a credit guarantee scheme to address working capital requirements and inadequate financing in the industry. Also, ensuring ease of profit repatriation for foreign investors and import duty waiver for capital goods used in production in the leather industry will further deepen investment inflow across the industry value chain.

Enhancing technology and human capital in the leather industry

One of the ways to promote a vibrant leather industry in Nigeria is through government mobilization and support in utilizing domestic technology as well as technology transfer to improve on the leather processing techniques across the value chain. The technology used in the leather industry is obsolete and needs urgent intervention in order to encourage accelerated development in the industry. This will not only generate the needed revenue for the government, it will also deepen the investment in the industry. Also, continuous empowerment of the human resources available in the sector through targeted programs and training in ensuring effective use of local raw materials and intermediate inputs rather than imported ones. This is aimed at reducing the high cost of production which is a key structural challenge inherent in the industry.

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