

Leather Sector Profile



1. Background to the Leather sector

1.1. Supportive conditions for the livestock sub-sector development

Uganda hides and skins are naturally of high quality, high texture and heavy substance which are suitable for the production of excellent heavy upper and vegetable tanned sole leather. On average, a Ugandan hide weighs 16 kg and has 29 ft² of which about 15 – 20% can be used for upholstery, making Uganda the only country in East Africa with larger quantities of hides that are suitable for upholstery.

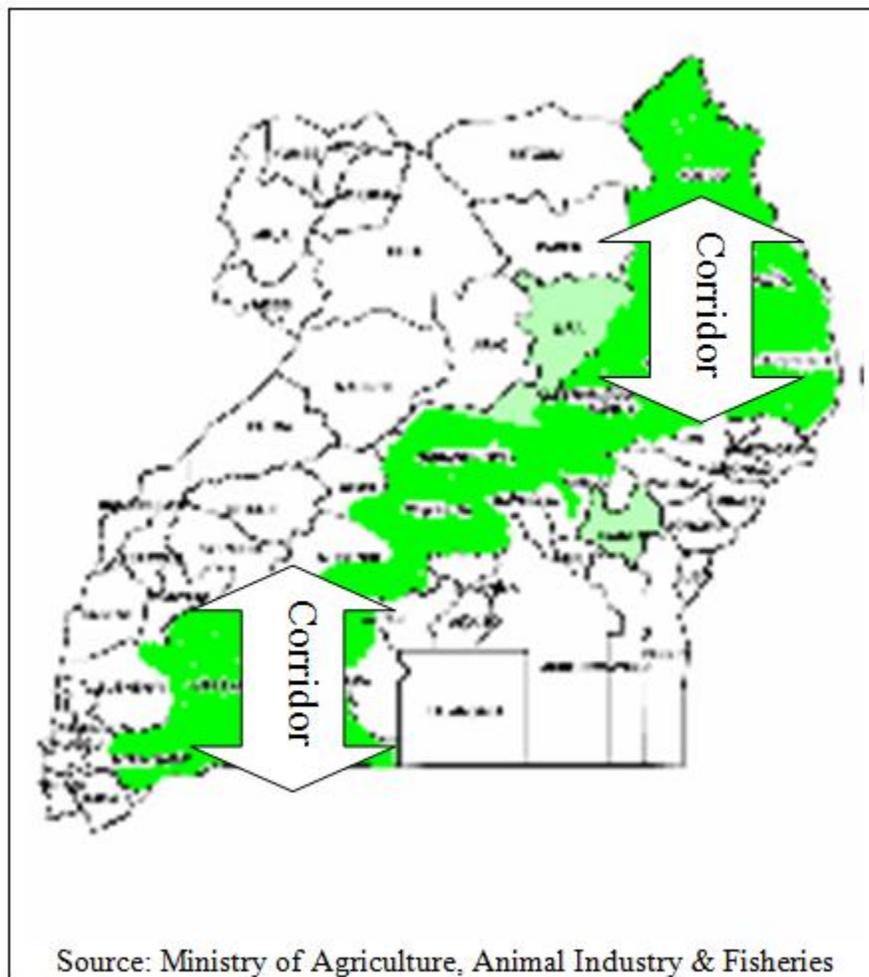
Uganda, a country gifted by nature and once dubbed the ‘Pearl of Africa’ by Winston Churchill is well-watered with over 160 lakes on top of rivers. Its location at the equator gives Uganda a predictable climate with annual precipitation varying from 750mm per year in the Northeast to 1,500mm around Lake Victoria and the mountainous areas. The total area of the country is 236,040 km², of which land is 199,710 km² and water 36,330 km². The natural climatic conditions in Uganda are well-suited for animal husbandry.

Livestock has historically played an important part in Uganda’s economy. In the 1960’s well funded and coordinated Government schemes led to a viable and profitable livestock industry involving milk, beef, leather and non-ruminant animal production. As a result, by 1970 there were over 560 ranches, 3,000 privately owned dairy farms and a thriving small-scale sector. The supporting infrastructure included 475 dams, 428 valley tanks, 7,500 boreholes, 2,100 dip tanks, 43 quarantine stations and over 170 well-equipped livestock markets. Most of this infrastructure is being restored with the participation of the private sector.

It is estimated that small holder farmers engaged in mixed farming and pastoralists together own 80 percent of the national cattle population with herds of 20-100 cattle. According to the Uganda Livestock Census conducted in February 2008, the indigenous cattle were 10.6 million, constituting 93.8% of the national herd with some cross and exotic breeds (beef and dairy) forming 8.2% of the total herd population. From an economic point of view, cattle are the most important of all the livestock, although goats and to a lesser extent sheep, pigs and poultry make significant contributions to the economy and the diet.

Cattle in Uganda are of local and mixed breeds and the hides are dominantly hand flayed which produce good quality light leathers and are generally free from defects. Hides and skins, the raw materials for leather, are by-products of the meat industry and they are derived from either urban or rural slaughters of cattle, sheep, goats and recently fish and crocodiles. With a population of about 11.4 million cattle, 3.4 million sheep, 12.4 million goats and 3.2 million pigs and the off-take rates in the range of 17% for cattle, and 30% for goats and sheep, the potential raw material available in Uganda is about 1.9 million cattle hides and about 4.8 million goat/sheep skins. Unfortunately, most of the hides and skins are exported in their raw form. With the recent introduction of a levy on raw hides and skins export, there are already visible foreign interests registered in the leather tanning ventures which will further spur interest down the industry chain, especially in the manufacture of leather goods.

1.2. Cattle Corridor in Uganda Figure 1: Showing Cattle Corridor



The greatest concentration of livestock in the country is found in the cattle corridor extending from the south-western region of the country through the central region and to the north-eastern parts of Uganda. Several forms of livestock ownership are practised in Uganda, the most important are: the pastoral system (low input-low output, subsistence-oriented production system in which the livestock owners practice pastoralism); agro-pastoral system (derives from pastoralists as households start to settle, and a crop production component is introduced); settled mixed crop-livestock (most common of ownerships where crops benefit from manure from stock while the latter feed on the crop residues); and commercially-oriented systems (where variable levels of input are used to produce a sustainable off take at a profit). Figure 1 shows the cattle corridor in Uganda.

2. Key Products in the sector

2.1. Hides and Skins

The Ugandan hides produce heavy quality leathers and are generally of high grades used for shoe uppers with some hides suitable for furniture leather when processed. Preservation of the hides is through suspension drying (10%); and wet-salting (90%) while for skins, sun drying (70%) is the major method of preservation. Hides and skins are by far the highest export earner from the livestock industry and are the only products from Ugandan livestock which have been able to break into the world-wide export market (milk, on a much smaller scale, has begun to penetrate only the African market). Uganda currently exports close to 90% of its hides and skins unprocessed. Table 1 gives a summary of the hides and skins indicators for Uganda.

Table 1: Summary Picture of the Hides and Skins sub-sector in Uganda

Quantity of Hides:	1.94 million
Quantity of Sheep Skins:	1.02 million
Quantity of Goats skins:	3.73 million
Annual Collection Level Hides:	90%
Annual Collection Level Goat skins:	70-80%
Annual Collection Level Sheep Skins:	70-80%
Flaying Methods:	Hand-flaying dominant
Preservation Methods:	Hides: Suspension drying: 10%; Wet-salting: 90% Skins: Sundry: 70%; Dry salted: 20%
Grading Systems, available grades and percentage of Each:	Grade I: 20%; Grade II: 30%; Grade III: 50%
Market (%):	Local hides/skins - 12%; International - 88% Major Markets: China, Switzerland, Italy, Hong Kong, Netherlands, Kenya, India, Canada, Pakistan.
Annual Export Value (US\$):	Estimated: \$6 million in 2009
Average market Bovine price:	\$ 0.5/kg (wet salted) / \$0.85/kg (dry salted)
Average market Sheep price:	\$1.1/pc / Lamb skins - \$0.44/pc
Average market Goat price:	\$1.1/pc / Kid skins - \$0.44/pc
Duty (export international)	US\$0.25/kg
Other Taxes (Eastern Africa Region)	Import (25%); VAT (18% refundable); Withholding (6%)

Source: various – Statistical Abstract 2010; and ITC - Leather line; Uganda Revenue Authority

2.2. Leather Tanning Products: Wet Blue and crust Leather

Leather tanning is being carried out in a number of tanneries, with major ones mentioned below:

- Leather Industries of Uganda, Jinja: capacity 150,000 hides and 500,000 skins per year. Operational.
- Uganda fish skin tannery: capacity 250,000 Nile Perch skins per year. Operational
- Novelty Tannery (Formerly Tannery & Leather Improvements Uganda), Masaka: capacity 150,000 hides, 400,000 skins/year. Operational
- Skyfat, Jinja. This is the most recently established tannery and it is the largest in the country at the moment. Operational.
- SWT – Jinja: Under construction
- Elgon Tannery – Masaka: Under construction
- Basajjabalaba Tannery, Mbarara: capacity 40,000 hides and 1,000,000 skins per year. Currently shut down pending revitalization.

Most of the tanneries in Uganda process hides and skins to the stage of wet blue for export which is a small percentage of the raw material that stands at about 10% for hides and 40 percent for the skins. It is only the Leather Industries of Uganda that currently processes leather up to finished stage ready for use in the local market.

2.3. Leather Products

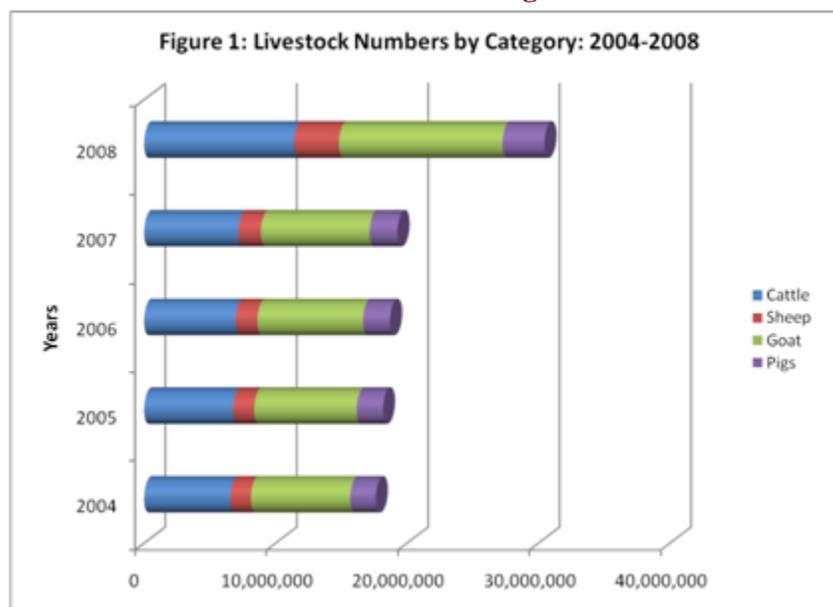
In Uganda a number of products are made from leather with shoes being the dominant one. Other products made on small scale include: footballs, handbags, belts, mats, and assorted leather artefacts.

2.4. Other skins types

Fish Skin, Crocodile Skin, and Ostrich Skins are also available on the Ugandan market but on small quantities and are mainly for local use.

3. Sector Outlook

3.1. Annual Livestock Production in Uganda



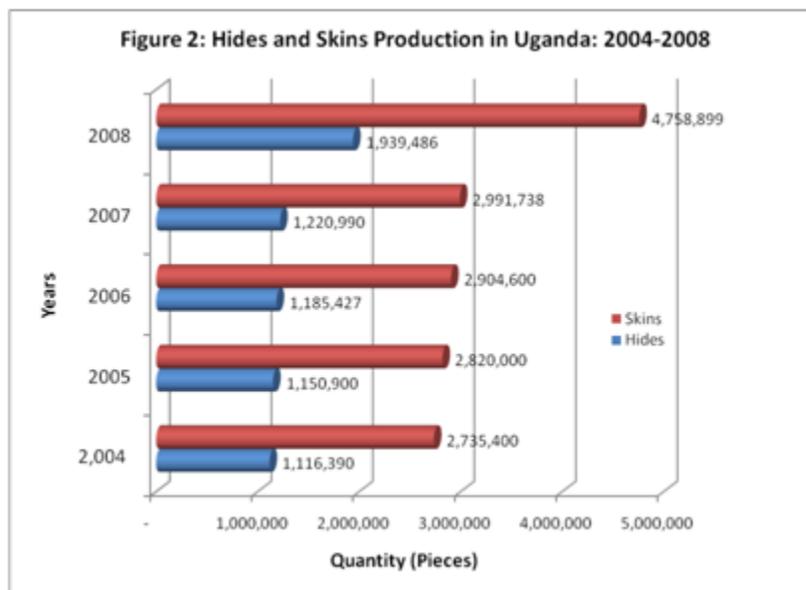
Source: *Livestock Census 2008, Uganda Bureau of Statistics*

Uganda's leather is of high quality, texture and heavy substance. The sector has tremendous potential for foreign exchange earnings, creating employment and has the capacity to attract profitable foreign investments.

The total amount of hides and skins produced in the country cannot be calculated with certainty but can be estimated using the number of livestock available in the country. Cattle population has increased steadily from 6.5 million heads of cattle in 2004 to 11.4 million by end of 2008, an increase by about 75%. For the goats and sheep, the increase has been by 40% and 120% respectively. Figure 1 shows the livestock numbers by category between 2004 and 2008. The phenomenal increase in the livestock population has been attributed to the general improvement in animal health services, improved breeding programmes and better management practices.

3.2. Hides and Skins Production

The quantity of hides and skins produced is determined by the number of animals that Uganda is carrying factored against the off-takes rates. For cattle, the off-take rate is currently estimated at 17% while for goats and sheep it is put at 30% which translates to approximately 1.9 million cattle hides and 4.8 million goat/sheep skins by end of 2008. Today most of the hides and skins are exported in raw form, mainly wet-salted and air-dried. However, with the recently introduced government levy on the export of raw hides and skins, more companies are being licensed in the sector to tan the leather. The outlook is therefore bright given the involvement of both government and international partners in the promotion of the sector. Figure 2 gives the estimated amount of hides and skins produced in Uganda since 2004. Between 2008 and 2009, the growth in the hides and skins production has been about 59% per annum and this positive trend is expected to continue given the good policies that government of Uganda has put in place as well as the review of the outdated laws to conform to international standards.



Source: Derived from Figure 1².

From July 2002, government introduced a number of policies like introduction of a 20% export levy which later was increased to 40% in July 2007 but failed enforcement but now replaced with a cess of US\$0.25/kg, all with an aim to protect the nascent tanning industry and encourage value added activities in the leather sector. Before the levies were introduced, the hides and skins share of Uganda's total exports used to rank high (at one time it ranked 3rd) but slowly came down from 7% in value in 1997 to less than 0.8% as at 2009.

3.3. Tanning sub-sector

The few industrial tanneries in Uganda use chrome tanning. However, some micro- and small entrepreneurs are doing vegetable tanning on a small scale. In general, the markets for chrome tanned leather and vegetable tanned leather are different. Vegetable tanning produces relatively dense leather, one that is firm and solid and yields a high weight of leather per unit of raw stock. Vegetable tonnages are used to produce bookbinding leather not only because of tradition, but because they produce leathers having a soft drape and handle (in addition to their firmness). In Uganda, vegetable tanned leather is also used for manufacturing bicycle saddles and saw gin washers for cotton ginneries. The most widely used chemical in chrome tanning is sodium

dichromate (Na₂Cr₂O₇), from which chromium sulfate is produced. Chrome-tanned leather is blue-green and tends to be softer and more elastic than vegetable tanned leather, and it is very stable in water. The value added operators in the leather sectors currently are: Uganda Leather and Tannery Industries – Jinja; Sky Fat - in Jinja; Balawi Hides and Skins (Busia), Novelty Tannery (Masaka), and one for processing fish skins (Gomba Fishing also in Jinja). Uganda has a good raw material base for the leather industry because of its large number of cattle, sheep and goats. The challenge for developing the leather sector in Uganda is to create a value adding chain, from raw material all the way to finished leather products. Figure 2 shows a snapshot of the leather tanning sub-sector in Uganda.

Table 2: A Snapshot of the Tanning Sub-sector in Uganda

Number of Tanneries:	6: bovine, goat and sheep / 1: fish skins
Installed tanning capacity:	Hides: 1150pcs or 29,900sqft per day Skins: 5200pcs per day
Tanneries in Operation:	5 - hides/skins / 1 - fish skins.
Utilized capacity:	Below 40%
Output of the industry:	Wet blue: 43,000 hides, 150,000 skins p.a. Finished: 3,000 hides or 75,000sqft p.a. Fish skins: 30,000 pc processed p.a.
Number of employees:	Approximately 100
Market (%):	Major Markets: China, Italy, Pakistan
Estimated Annual Export Value (US\$):	\$2,000,000 (2004/05)

Source: various – Statistical Abstract 2010; and ITC - Leather line

With government support to the development of this sector, it is anticipated that the leather industry will register more value added activities in the medium to long-term period. If the hide is processed, its multiplier effect is 3 to 4 times and in finished products it is 10-12 times profitable, hence any good policies should aim at enhancing these benefits.

3.4. Leather Products (Shoes) Figure 3: Shoes on display at a Kampala retail outlet.



After the economic hardship ignited by the Amin regime in the 1970s, charity organizations shipped second-hand clothes and shoes to Uganda and created at some point a surplus which subsequently turned into a big business. In 1997 some 17 million pairs of shoes were imported to Uganda, now the official number is slightly under 2 million pairs by 2009.

As a general rule, one hide yields about 20 pairs of men's or 40 pairs of women's shoes (UNIDO Study 2002). Raw hides go usually to the Far East and wet blue hides to Europe. Europe imports wet blue hides because of environmental restrictions for tanning. Far East countries can tan less expensively, because they produce the chemical and machinery for tanning. Today the total market size in Uganda for leather shoes is 15 million pairs per year and for synthetic shoes another 10 million pairs. Less than 4 million pairs of shoes are produced in Uganda. New leather shoes are also being imported from Kenya, Europe and other countries. The total amount of leather produced in the country cannot be calculated with certainty but there are two companies that produce leather in Uganda: Leather industries of Uganda (LIU) and Leather Works Limited, both located in Jinja town, east of Uganda. The Leather Works produces vegetable tanned leather mainly demanded by the cotton ginneries as chrome washers for the gins. The LIU on the other hand produces for the local demand as well as doing contract leather processing for one Kenyan company. Figure 3 shows shoes on display at a Kampala retail outlet.

Bata Shoe Company: This used to be the biggest shoe company in Uganda. Bata is a large transnational shoe manufacturer that was active in shoe manufacture in Uganda until 2004 when it decided to concentrate on retail business only. At the time, Bata Uganda had over 250 employees and it manufactured exclusively for the domestic market over 50,000 pairs of shoes per week, with 1,500 made from leather. The rest were rubber boots and sandals. Today Bata has its retail shops in all major towns of Uganda, and manufactures some of its retail shoes under a contract arrangement with its former employees who have leased its equipment with the raw materials supplied by the Leather Industries of Uganda in Jinja.

Uganda Shoe Company: This is a small company which produces 200 pairs of shoes per week. Currently, Uganda Shoe Co. Ltd. manufactures shoes for the Government (mainly uniform shoes) and for industrial enterprises.

People's Footwear and General Enterprises: The enterprise produces and repairs shoes, including second-hand shoes and also manufactures small leather goods such as belts, bags, purses, wallets

and key holders. People's Footwear employs currently 8 workers and manufactures about 3,000 pairs of shoes per year.

Training & Common Facility Centre / Crane Shoes: The company produces 300 pairs of shoes per week and the array of products which includes: Boots, Children's shoes, Men's shoes, Military Safety, Sandals and Women's shoes. Most of the raw materials (leather) are obtained locally from LIU and Gomba Fishing with small quantities imported from Kenya.

Foot Protection Services (U) Ltd: When Bata Shoe Company divested its interest from the manufacturing, it leased out its equipment to the employees who now make the footwear for its retail business in Uganda. The products include: Boots, Children's shoes, Men's shoes, Military Safety, Sandals and Women's shoes.

3.5. Leather Sector Contribution to GDP

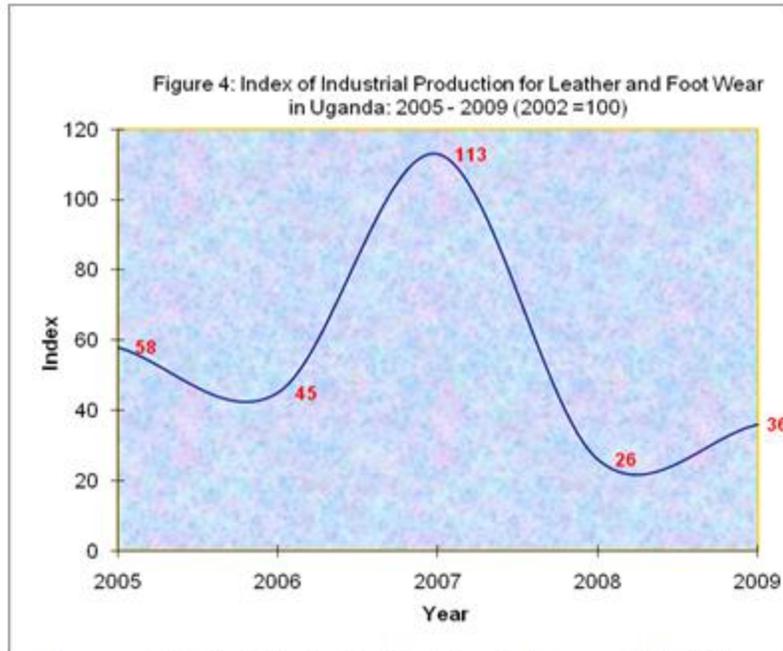
Agriculture contributed approximately 21 percent of the total Gross Domestic Product (GDP) in 2009 at current prices and 90 percent of the total export earnings. Livestock sector on the other hand contributed 13.7% to agricultural GDP and 1.5% to the national GDP. However, the contribution of the leather sector to the GDP is not yet known, but the leather sector has been growing at 3% per annum on average between 2005 and 2009.

Figure 4 shows the index of industrial production for leather and footwear in Uganda where the performance was best between 2006 and 2007 peaking 113 before easing to its lowest level in 2008. The index has picked up since 2009, showing an upward trend. By any account, the index of industrial production of the footwear and leather industry has shown a mixed performance, both negative and positive growth over the last five years.

In the past, the Bata Shoe Company used to play a big role in the performance of leather sector but it is now out of production and concentrating mainly on retail business in Uganda. Bata has contracted out its shoe manufacturing component to a private firm.

Source: Statistical Abstract 2010, Uganda Bureau of Statistics.

4. Employment and work skills in the Leather Sector



Source: Statistical Abstract 2010, Uganda Bureau of Statistics.

4.1. Employment

Over 4.1 million households are engaged in cattle and goats farming as of 2009. The leather industry also employs many people that are involved in various activities such as flaying (in 4 abattoirs, 40 slaughter houses and 800 slaughter slabs distributed countrywide), hides and skins preservations; collection, transportation, processing and marketing/distribution as well as provision of support services. There is no up-to-date statistics regarding the number of people employed in the entire leather sector value chain. However, the tanneries collectively employ over 100 people while more jobs are created directly and indirectly at the leather shoe making and artefacts activities.

4.2. Workforce and availability of labour skills/Training Institutes

Workforce: The current number of profession staff in the livestock industry can help spur development in the sector. There are 50 veterinary surgeons at the central government ministries; 322 in local governments (district veterinary offices); 129 act as private practitioners, 94 work in universities and colleges, laboratories, research institutions and over 74 veterinary surgeons work in non-governmental organisations or other businesses. Altogether, over 1,216 para-veterinary surgeons are working mainly in government business, including personnel holding certificates and diplomas.

Long/Short-term professional courses: Other educational/training institutions include Bukalasa Agricultural College; the Faculty of Veterinary Medicine (produces over 100 veterinary doctors annually); Faculty of Agriculture (Departments of Animal Science and of Food Science and Technology) both at Makerere University also offers both long and short professional courses relevant to the leather industry, indirectly.

Uganda Industrial Research Institute (www.uiri.org): Conducts regular apprenticeship, in diverse fields for prospective entrepreneurs who want to join the sector. Aspects like equipment sourcing, management and standards issues in the sector are well handled by the institute.

District Resources: Every district of Uganda has a veterinary department manned by professional staff. In total, there are currently 112 districts (March 2011) in Uganda. The National Agricultural Advisory Services (NAADS) also works with the districts to promote best practices while providing agricultural/veterinary extension services to farmers.

Other initiatives: Much development assistance from Uganda's partners comes with skills development component which has contributed a great deal to enhancement of the skill base in the leather sector. UNIDO did a lot to train people in the flaying of animals for good quality products as well as in the preservation methods for quality hides & skins. Other development partners are dealing with re-stocking the country with livestock resources.

5. Competitive Strengths of the sector

Ranches: Currently, a number of private ranches have been restocked to commercial levels, and have appropriate infrastructure and management in place. According to Ministry of Agriculture and Animal Industry and Fisheries (MAAIF), 165 ranches are stocked and functioning nationwide. The more progressive ranches have Boran, Bosmara, Redpoll, Sahiwal and cross-breeds on their ranches and are always expanding.

Pasture availability and quality: Uganda has an abundance of grazing resources which form 44% of the total area, i.e. 107,000sq.km. These grazing resources contribute nearly 98% to the feeding of ruminants which include cattle, sheep, goats and game.

Thickness of Uganda's Hides: On average, a hide weighs 16 kg and has 29sq.ft. However, the improved quality combined with the thickness, which compares to the thickness of hides from Brazil and Rwanda, yields higher prices for exported raw hides. About 15 – 20% of Ugandan hides can be used for upholstery. Uganda is the only country in East Africa with larger quantities of hides that are suitable for upholstery, according to a leather sector review study done by UNIDO in 2002.

Disease Control Zones: Even though landlocked, a major part of Uganda is surrounded by water in a continuous systems of lakes, rivers and a channel making establishment of disease control zones using natural borders a great advantage in helping demarcate the zones from its neighbours.

Abundant and affordable labour: Uganda has abundant skilled and unskilled labour for cheap production with labour rates per hour being US \$ 0.6 compared to \$1.1 for Kenya, \$0.7 for Zambia and \$2.8 for Zimbabwe (According to World Bank Investment Climate Survey 2004). Further Uganda has the most flexible labour labours in Africa and ranks highest in Africa (Doing Business Report 2011 by World Bank).

Good infrastructure: About half of the major national road network is bitumen surfaced (tarmac) which facilitates transportation of goods across a major parts of the country, making collection of

hides and skins easy throughout the year.

Large stocks of indigenous dual-purpose animals: The indigenous animals in Uganda are tolerant to most diseases and tropical climate and these account for about 94% of the national herd.

Increasing population (urban and rural): Uganda has one of the fastest growing populations in Africa/world (3.6% per annum). This will lead to availability of affordable labour and a good market for processed leather products if income levels are enhanced.

Supportive Government Policies: A number of policies and laws are currently under review (i.e. Hides & Shins Act 1964) to improve business activities in the leather sector. Government has put in measures that will encourage availability of raw materials for the local tanning industries, imposition of export tax.

6. Licenses/Regulations required for operations

Uganda is vigorously pursuing policies, the regulatory framework and its enforcement so as to conform to SPS measures on animal health and food safety since she is a member of the WTO, and the OIE (World Organisation for Animal Health). The East African Community also has approved its SPS Code harmonizing the standards and procedures for certifying the health and safety of animals and animal products thus facilitating their movements/trade into, out of and within the Community. Below are the applicable regulatory frameworks:

The Animal Diseases Act 1964, 2003 selective ban on importation of cattle, beef, semen, ova, embryos, etc in relationship to BSE; The Cattle Trading Act 1964; The Hides and Skins Act 1964; The Veterinary Surgeons Act 1970; The Animal (Straying) Act 1964; The Animal (Prevention of Cruelty) Act 1957; The Cattle Grazing Act 1964; The Animal Breeding Act 2000; The Uganda National Bureau of Standards 1993 and 1998; The National Water Statute; The WTO Bill in the making; The National Environmental Protection Statute; The East African Community Sanitary Phyto-sanitary provisions; The WTO SPS Agreement and measures; The OIE international Animal Health Codes, among others.

Most veterinary regulatory frameworks are old and are thus being reviewed or entirely reformulated to meet the new economic policies and to harmonise with WTO Agreements and measures. These will also be harmonized with the regional and international regulatory frameworks on similar issues. Uganda also expects to conform to the EAC, WTO / SPS, OIE and Codex Alimentarius standards and procedures so as to guarantee its continued participation in the global market. Below are some of the institutions that regulate the leather industry in the country:

Ministry of Agriculture, Animal Industry and Fisheries (MAAIF): This is the parent ministry of the leather sector which designs all government policies and laws promoting the development in the leather sector. Government of Uganda retains the responsibility to control certain epidemic diseases of livestock such as Foot and Mouth Disease, Contagious Bovine Pleuro Pneumonia, Rinderpest and Rabies.

Uganda National Bureau of Standards: Responsible for setting the national standards for products and their enforcement.

National Animal Genetic Resources Center and Data Bank (NAGRC & DB): NAGRC & DB is the custodian of the animal breeding policy and responsible for implementing of all government policies related to animal breeding in Uganda, including artificial insemination.

National Agricultural Research Organization (NARO): NARO is responsible for research in the livestock sector. Different NARO divisions do research and development of technologies in animal health, breeding and nutrition of livestock. Veterinary services in the country are now privatised and are readily available in most parts of the country.

National Environment Management Authority (NEMA): is the lead agency for the development of environmental, including effluent, standards and has the authority to examine factories without prior notice and to shut down polluting productions. NEMA has 108 inspectors in the whole country.

Ministry of Water, Lands and Environment: Although the Ministry does not have any treatment plants, it has a laboratory that is equipped with an atomic absorption spectrophotometer (AAS) which is able to detect chromium in waste water.

National Water & Sewerage Corporation (NWSC): NWSC is not obligated to accept waste water from a factory if the pretreatment is not adequate. If the effluents are rejected by NWSC, the factory has to comply with the national effluent standards as defined by NEMA.

Uganda Leather and Allied Industries Association (ULAIA): This is an association of leather players acting as a lobby group for progressive policies in the industry. ULAIA also helps its members to maintain good practices and standards in the industry.

7. Quality standards in the Leather Sector

The Hides and Skins Act 1964 lays down regulations for the inspection of abattoirs, slaughter houses, slabs, hides and skins stores and tanneries to ensure that they conform to processing and environmental requirements.

With support from numerous UNIDO projects, it has been possible to introduce a quality scale for the hides and skins in Uganda. Below are the grades of hides:

- Grade I: at least 90% of the hide is without defect (cuts, holes, lacerations).
- Grade II: between 75% and 90% of the hide is without defect.
- Grade III: between 65% and 75% is without defect.
- Grade IV: between 50% and 65% is without defect.
- Grade V: less than 50% of the hide is without defect. This grade is considered as reject and is used and tanned for the local market only.

Available statistics show that a container of hides for export from Uganda is composed of around 1500 hides, of which 100% are tannery run (TR), grades I (20%), II (30%) and III (50%). The Ministry of Agriculture, Department of Animal Production, has supported this grading policy

and has funded hides and skins improvement extension officers at the centre as well as at the districts.

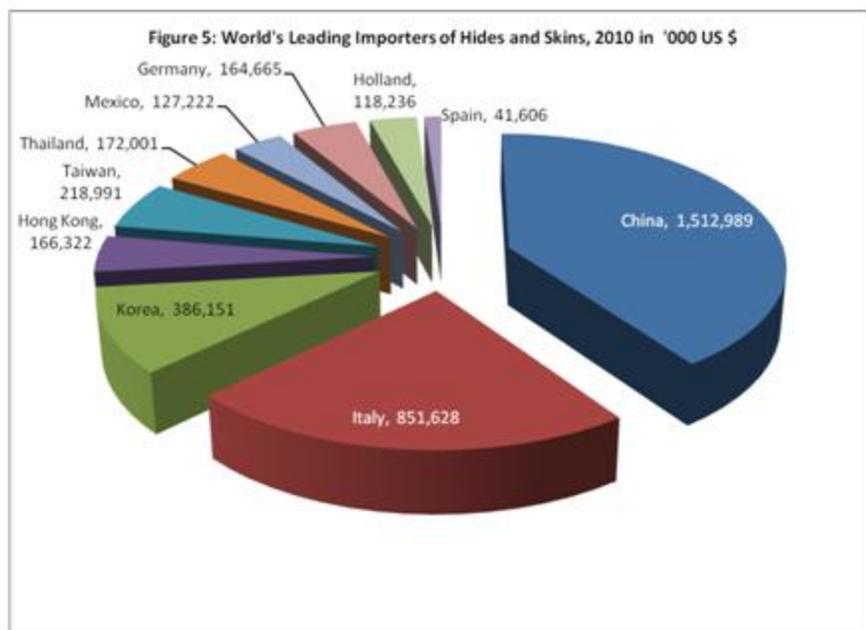
The East African Community also has approved its SPS Code harmonizing the standards and procedures for certifying the health and safety of animals and animal products thus facilitating their movements/trade into, out of and within the Community. Other international standards may be viewed at: <http://www.tannerscouncil.org/iu132.htm> ;
http://www.leatherchemists.org/iultcs_test_methods.asp (for American Leather Chemists Association)

8. World Trade in Leather Sector

8.1. Leading Countries in Leather Trade

Leather is one of the world's most widely traded commodities. The leather industry in total produces over 18 billion square feet of leather a year, and the total value of this is estimated at over \$60 billion, according to 2008 figures provided by the FAO. Developing countries now account for over 60% of the world's leather, and this proportion is growing. Africa's abundance of livestock represents a natural strength for the sector, as leather is a by-product of the meat industry. Africa has about 15 per cent of the world's cattle population (Uganda's 1%) out of the over 1.3 billion cattle. This puts Africa, and Uganda in particular, at the centre of the booming leather industry as a key supplier of hides and raw materials. About 65% of the world production of leather is estimated to go into leather footwear and the global production of footwear is estimated at around 11 billion pairs (worth an estimated \$150 billion at wholesale prices). The value of leather products at retail level would be commensurately higher - and the value of products containing leather, if one counts automobiles and aircraft, would be substantially greater than a straight proportion of the footwear value.

The leather industry is very much an international industry - with raw hides and skins, part processed leather, finished leather, leather components and leather



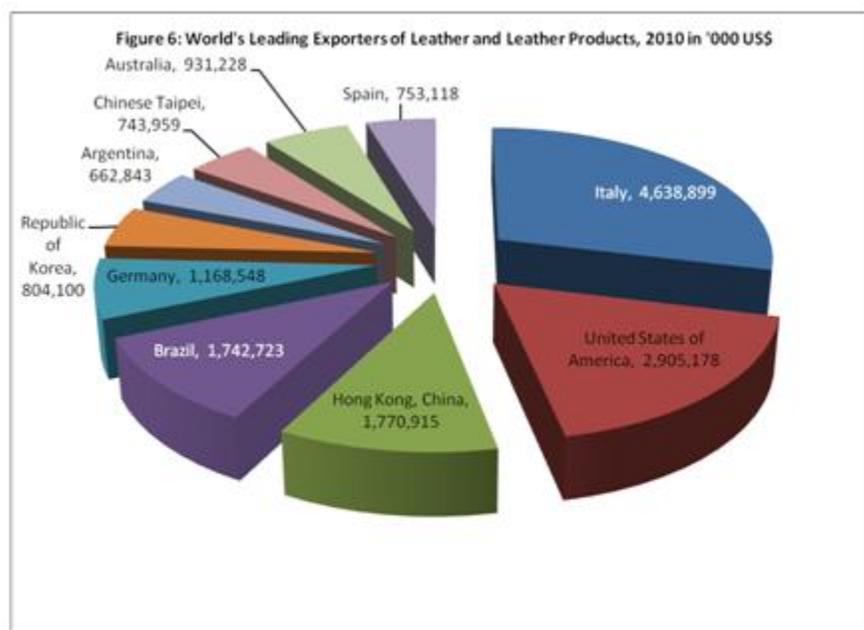
Source: International Trade Centre, www.trademap.org

products widely imported and exported. China continues to dominate world's imports of hides and skins. As of 2010, China imported over US\$ 1.5 billion, followed by Italy (US\$850 million), Korea (US\$386 million), Taiwan (US\$ 219 million), Thailand (US\$ 172 million), Hong Kong (US\$ 166 million), and Germany (US\$ 162 million) in that order. Asian countries are dominating the hides and skins trade because of their technology and low cost of tanning. Figure 5 shows the main destinations of hides and skins in the world.

Figure 6 shows a schema of world's leading exporters of leather and leather products in 2010. Italy is the leading exporter of leather and leather products in the world where is 2010, it exported leather goods worth over US\$ 4.6 billion, followed by the USA (US\$2.9 billion),

Hong Kong (US\$1.8 billion), Brazil (US\$1.7 billion), Germany (US\$1.2 billion), and Korea (US\$804 million) in that order.

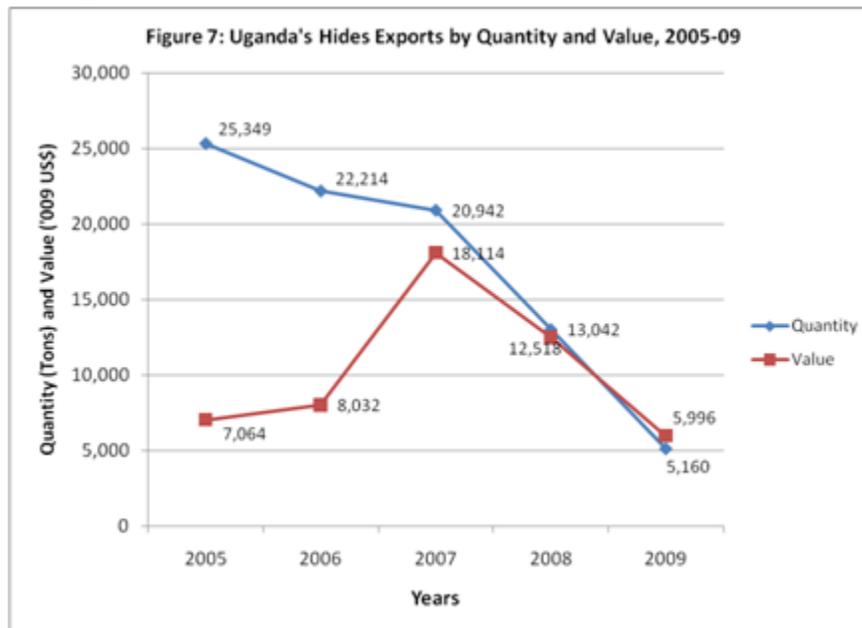
Since the year 2000, a number of African States have implemented export taxes on wet salted hides and dried skins in order to restrict exports in the face of increasing import demand in Asia that resulted in critical lack of raw material for the local



Source: International Trade Centre, www.trademap.org

processing industry. In addition to these newly applied policies, other African States already had export bans in place so as to ensure availability of raw material for their respective domestic leather sectors.

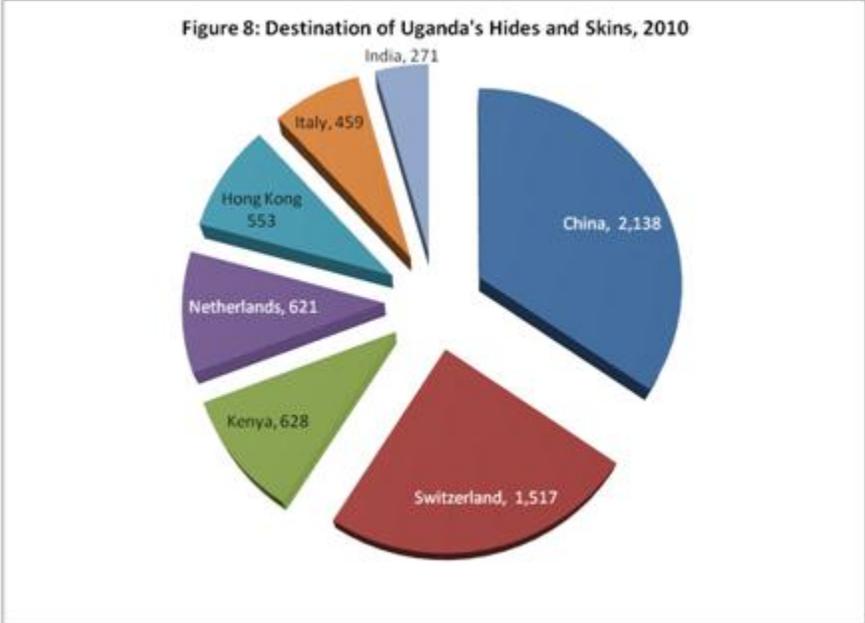
8.2. Uganda in International Leather Trade



Source: Statistical Abstract 2010, Uganda Bureau of Statistics

For instance, although some quantities of Ugandan hides go to India, India has banned the export of raw hides, wet blue hides, crust and finished leather and allows now only the export of finished leather products. Russia has also introduced an export levy of 60% on raw hides. Nigeria, Zimbabwe, Ethiopia and Sudan have a flourishing tanning industry, since these countries banned the export of raw hides. Kenya also imposed a 40% export levy on raw hides while for Tanzania beginning financial year 2007/08, a 20ft container would be taxed US\$ 15 000 while a 40ft container would be charged US\$ 30 000. Uganda for instance is implementing an export levy (cess) of US\$0.25/kg on export of raw hides and skins in order to develop its internal capacity for value added activities in the sector. Figure 7 illustrates the effects on the levy where since its introduction in 2007, less and less hides are being exported from Uganda in which both the quantity and value of raw hides have declined considerably.

In terms of destination of Uganda’s hides and skins, China continues to remain the major importer accounting for 34% of total exports closely followed by

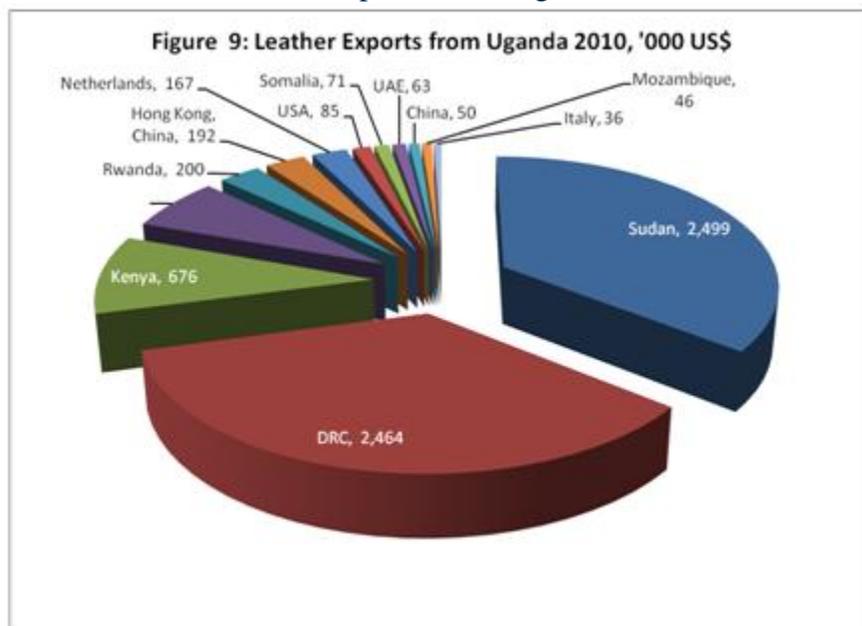


Source: International Trade Centre, www.trademap.org

Switzerland with 24% then followed by Kenya with 10% of the exports. Other importers of Uganda’s hides and skins are: the Netherlands, Hong Kong, Italy and Pakistan in that order. Figure 8 shows the destinations of Uganda’s raw hides and skins in 2010.

The European countries mainly import processed wet blue leather with Ital being the major importer under this category. The other countries that started importing wet blue leather from Uganda since 2010 include: Canada, Thailand and Turkey.

For finished leather, most of Uganda's exports are regional. The Sudan leads with US\$2,499,000 followed the Democratic Republic of Congo with



Source: International Trade Centre, www.trademap.org

US\$2,464,000 and Kenya with US\$676,000. The other countries that import finished leather from Uganda are: Rwanda, Hong Kong, the Netherlands, USA, Somalia, the United Arab Emirates and China among others.

With new entrants into the leather tanning sub-sector, it is expected that Uganda will increasingly export value added products.

9. Specific sector related incentives

The Income Tax Act 2003 section 21 (1) (u) exempts interest earned by a financial institution on a loan granted to any person for the purpose of farming, forestry, fish farming, bee keeping, animal and poultry husbandry or similar operations from withholding tax. Further, Section 83 (5) of the same Income Tax Act states that "interest paid by a resident company in respect of debentures is exempt from tax. Importation of animal semen is also free of duties and taxes. These in the long-run will boost livestock production which in turn may lead to increased production of hides and skins.

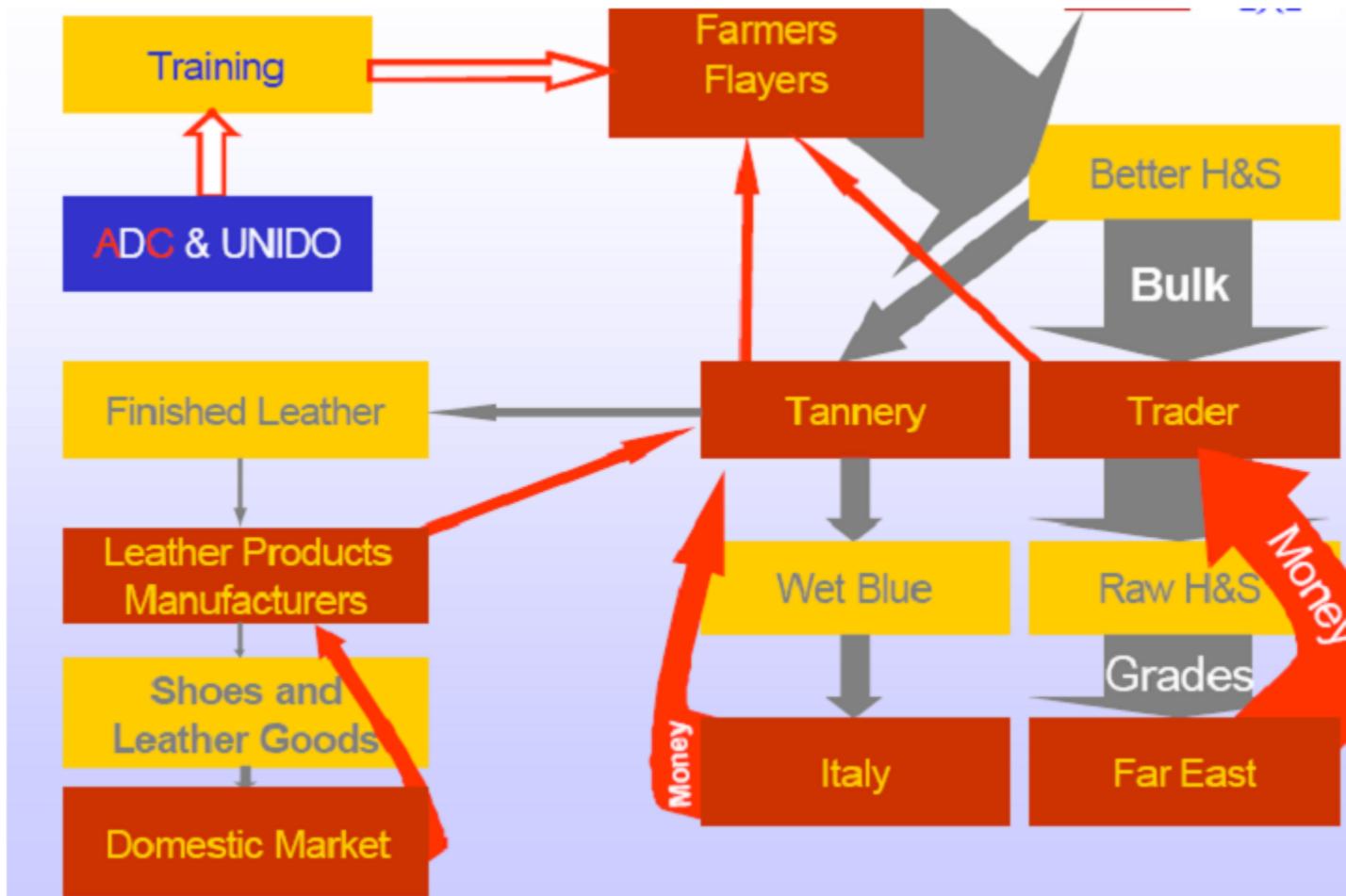
For tanneries, an export cess of US\$0.25/kg charged on raw hides and skins is aimed at discouraging export of raw hides and skins so as to make available the much needed raw hides and skins for the tanneries in Uganda.

10. Leather Sector Value Chain

The tanneries compete with the traders for the raw material and also benefit from the better quality, albeit they can purchase only much smaller quantities. Most of the tanneries' production is wet blue hides and skins, which are sold mainly to Italy. Figure 10 depicts a typical leather sector value chain in Uganda which outlines the major activities and the actors. The gray arrows symbolize the flow of goods. The red arrows show the streams of money. It is evident that the traders make most of the money and pay much less to the producers of the raw material. Certain

traders own also slaughterhouses, which puts them in a very powerful purchasing and bargaining position.

Figure 10: The Leather Sector Value Chain



Source: Adopted from Evaluation Report UNIDO Projects US/UGA/92/200 - 300

11. Some of the Initiatives and Active Companies in the Sector

UNIDO support to the leather sector in Uganda constituted a part of the UNIDO regional program to support leather and footwear industry in Southern and Eastern Africa. In the 1990s, the leather and footwear industry in Uganda was supported primarily by two UNIDO projects funded by the Government of Austria:

- UGA/92/200: National Africa Leather and Footwear Industry Scheme (1993-96) total expenditures (excluding support costs) USD 842,311,-
- US/UGA/96/300: Integrated Program Assistance to Strengthen the Leather Products Industry in Uganda (1997-99) total expenditures (excluding support costs) USD 742,684,-

In the above national projects, support provided addressed problems in the three vertically-linked sub sectors of hides and skins, tanneries and leather products. Farmers and butchers were assisted in increasing the quality of hides and skins, tanneries were supported both in upgrading production technology and waste management, whereas support to small entrepreneurs covered footwear and other leather products.

Abattoirs: There are three abattoirs which slaughter and cut meat for local market. These are: Uganda Meat Industries - Kampala; City Abattoir - Kampala; Top Cuts, and Kalerwe Abattoirs, all slaughtering 700 cattle and 150 goats daily. The Soroti Meat Packers - Soroti (currently non-operational), initially set up for the slaughter, processing and canning of meat for export. There are other 40 slaughter houses and 800 slabs countrywide.

Basajjabalaba Hides & Skins Co.Ltd. (Bhs): The company has 2,500 employees in Uganda, Kenya, Tanzania, Rwanda and Burundi and it is the biggest H&S exporter in East Africa.

Equator Sports Co. Ltd.: Equator Sports was established in 1995. It manufactures footballs and balls for other sports. The material used is split cow leather and comes from a special tannery in Sagana, East Kenya. There is an import duty of 15 – 17% for imported leather. The finishing of the leather is special, because the material should not stretch. The average annual production is 6,000 balls. However, about 90% of the balls sold in Uganda are imported. Many plastic balls come from Pakistan. There are no import tax on sports goods in Uganda.

Gomba Fishing Industries Ltd.: The fish factory existed before the tannery. The fish factory has 500 employees, while 14 people work at the tannery. The tannery was founded in 1994 to use the fish by-product, and in this case, the Nile Perch skin. The tanning capacity is 4,000 Nile perch skins per day but the company is operating at about 25% capacity. Nile perch skin costs \$9.20 per sq.ft, as compared to \$14 for crocodile skin.

Leather Industries Uganda (LIU): The tannery was founded in the late 1970s by Government of Uganda and was acquired in 1996 by the Aga Khan Group (IPS) through the divestiture process with a tanning capacity is 750 hides per day. The total production capacity for wet blue hides for export is approximately 200 containers per year. One container holds about 1,500 wet blue hides. On the local market LIU sells only finished leather which accounts for 8-10% of the LIU's total sales volume and Bata Shoe Company is its largest customer and accounts for 70% of domestic sales.

Novelty Tannery Ltd (Masaka): The tannery was initially called the Tannery and Leather Improvement Uganda Limited (TALIU) owned by Ugandans before being acquired by the current Lebanese owners. The tannery was built between 1997 – 2000 and started operations in 2002. Currently, the enterprise tans 250 hides or 2,000 skins per day. Its capacity is 500 hides or 4,000 skins per day.

Top Cuts; and City Abattoir: Top Cuts has 83 employees (with a number of them trained in flaying). On average, it takes two months to train a flayer. In manual flaying, there are always five flayers working on the same animal at a time. Top Cuts has 7 flayers. The City Abattoir on the other hand has 30 flayers. Although some of the abattoirs have conveyor chain and electric hide pullers which avoid flaying cuts into the hides, most abattoirs prefer manual flaying which takes 20 minutes only so they can get the meat faster to the market compared to electric flaying which takes about one (1) to do the work.

12. Investment Opportunities

Investment opportunities range from the point of production to the end point of finished leather as outlined below:

Establishment of Modern Abattoirs and Slaughter houses: Most of the existing abattoirs are run down. There are virtually no modern slaughter facilities or abattoirs in Uganda that can meet international standards. Investment opportunities in the new upcountry slaughterhouses as well as slaughter slabs are essential for improved hides/skins quality especially if the hides/skins are directly delivered to the tanneries for processing.

Tanning: Uganda currently exports large amounts of unprocessed hides and skins, although the quantities are now decreasing since the imposition of an export tax in 2007. Prospects for investment in local tanning industry are very bright with current levies on export of raw hides and skins. Investment opportunities exist in leather processing and finishing for both local and export markets.

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

Leather products: Opportunities are abound in shoe manufacture and other leather articles such as bags, belts and leather materials for upholstery. Currently, Uganda imports footwear to the tune of US\$40 million per annum as of 2010.

Joint Ventures and Technical Assistance Opportunities

- **Fish Skin:** Fish skin processing has a high investment potential as there is virtually no risk of raw material shortage in the country in the foreseeable future. This product is high fashion conscious and it is advisable that various finishing options are thoroughly evaluated to maximise benefits from export opportunities.
- **Crocodile Skin:** Leather from crocodile skin is of high value and the potential for further investment in this area is extensive; however, entrepreneurs are advised to take into account the need to set up fairly large operations in order to be competitive on the international market.
- **Ostrich skin:** Ostrich farming is limited to the North east (Karamoja) and also in Masaka. Some local tanners have expressed the interest in setting up commercial ostrich farms for the production of ostrich leather and other products for export. Potential investors in this area should take into account the volatility of international prices for these products.
- **Freba Tannery:** Joint venture to rehabilitate and manage the existing Freba tannery in Mbarara which involves setting up an effluent treatment plant. This plant operated for short time until it was closed down due to environment concerns.
- **Uganda Crocs:** Expansion of crocodile's skins trade and local tourists' activities in joint venture.
- **Uganda Fish and Skin:** Requires technical assistance to verify the quality of the fish skin

production according to the international fashion and standard requirements.

13. Appendices

Appendix 1: Useful Contacts - Institutions

Name	Address	Tel/Fax	E-mail/web site
Uganda Investment Authority	Plot 2B, Lumumba Avenue, Twed Plaza, P.O.Box 7418 Kampala	Tel:+256-41-4301000 Fax +256-41-4342902	info@ugandainvest.com www.ugandainvest.com
Uganda Export Promotion Board	Konrad Plaza Entebbe Road, P O Box 5045, Kampala	Tel:+256-41-4230233 Fax:+256-41-4259779	www.ugandaexportsonline.com
Uganda National Bureau of Standards	Plot M217 Nakawa Industrial Area P O Box 6329 Kampala	Tel.: +256-41-4505995 Fax: +256-41-4286123	unbs@infocom.co.ug www.unbs.go.ug
Uganda National Chamber of Commerce and Industry	Jumbo Plaza, Parliament Avenue P O Box 3809 Kampala	Tel:+256-41-4 58791/3 Fax:+256-41-4258793	info@ugandachamber.com www.ugandachamber.com
Uganda Manufacturer's Association	Lugogo Show Grounds P O Box 6966 Kampala	Tel:+256-41-4221034 Fax:+256-41-44220285	information@uma.co.ug uma@starcom.co.ug
National Research Organisation (NARO),	P.O Box, 1752, Kampala	Tel: +256-41-4255163/ 4255164 Fax: +256-41-4255165	dgnaro@infocom.co.ugb www.naro.go.ug
Micro & Small Scale Enterprises Component UNIDO Uganda Integrated Program (UIP)	Plot M217 Jinja Road Nakawa P.O. Box 7184 Kampala	Phone +256-41-4286-765	uipunido@ucpc.co.ug
Uganda Leather And Allied Industries Association (ULAIA) Mr. Emmanuel Mwebe	Lugogo Show Ground	Tel +256-41-4222-551 Fax +256-41-4222-201 Mob.: 256-772-447130	Email: mwebez@yahoo.com
National Environmental Management Authority	Plot 1 Colville Street P.O. Box 22255, Kampala	Phone +256-41-4251064 Fax +256-41-4257521	info@nemaug.org www.nemaug.org

Appendix 2: Useful Contacts – Some Companies in the Leather Sector

Training And Common Facilities Center (Tcfc)	6 th Street Industrial Area	Phone +256-41-4348476 GSM+256-77-2409021 Fax +256-41-4345598	tcfc@infocom.co.ug
Bata Shoe Co. of Uganda Ltd.	Fifth Street, Plot 92/94 Indust. Area P.O. Box 422 Kampala	Phone +256-41-4235440/ 4233373 Fax +256-41-4341380	bata.uganda@bata.com
East Hides Uganda Limited	Plot 37 – 39 – 41 – 43, Kibira Road P.O. Box 8406 Kampala	Phone +256-41-4235440/ 4233517 Fax +256-41-4345068	ehidesug@africaonline.co.ug
Equator Sports Co. Ltd		Phone +256-481-420902 GSM+256-77-2503717	
Gomba Fishing Industries Ltd - Jinja	P.O. Box 4903 Kampala	Phone +256-41-4243066 (Kampala) Factory +256-43-4421352 (Jinja) Fax +256-43-4421335 (Jinja)	
Haba Group Of Companies - Basajjabalaba Hides & Skins Co.Ltd. (Bhs)	Plot 1 Channel Lane P.O. Box 20000 Kampala	Phone +256-78-2260158 Fax +256-78-2260425	bhs@utlonline.co.ug
Leather Industries	P.O. Box 3025	Phone +256-41-4258194	hirani@ipsuganda

Uganda (LIU)	Kampala	Fax +256-41-4254261	com
People's Footwear & General Enterprises - Jinja	Plot No. 6, Ripon Road P.O. Box 487, Jinja	Phone +256-43-4120501 GSM +256-77-2567312	
Siraji Enterprises Limited	Plot 85 6th Street, Industrial Area P.O. Box 12599 Kampala	Phone +256-41-4258658 Fax +256-41-4231849	
Novelty Tannery Ltd - Masaka	Plot No. 16/18, Buddu Street Masaka	Phone +256-481-420902	
Top Cuts – Division Of Uganda Meat Industries	Plot 5 Old Portbell Road P.O. Box 180 Kampala	Phone +256-41-4345604	
Uganda Shoe Co. Ltd	Plot 104/106 5th St. Industrial Area	Phone +256-41-4259192 Fax +256-41-4251880	
Elgon Leather Co. Uganda Limited	Plot 20, 3 rd Street Ind. Area, Box 23137, Kampala	Tel. +256-41-4586755/772-583260 Fax +256-41-4586756	sekandi@yahoo.com

Appendix 3: Livestock Numbers in Uganda: 2004-2008

	2004	2005	2006	2007	2008
<i>Cattle</i>	6,567,000	6,770,000	6,973,100	7,182,293	11,408,740
<i>Sheep</i>	1,552,000	1,600,000	1,697,440	1,697,440	3,413,340
<i>Goat</i>	7,566,000	7,800,000	8,034,000	8,275,020	12,449,656
<i>Pigs</i>	1,940,000	2,000,000	2,060,000	2,121,800	3,184,300
<i>Chicken</i>	31,622,000	25,173,720	25,928,932	26,706,800	37,443,880
<i>Rabbit</i>	--	101,000	104,030	107,151	68,550

Source: Uganda Livestock Census 2008, by Uganda Bureau of Statistics