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A COMPARATIVE STUDY OF POLICIES PROMOTING GROWTH OF THE LEATHER INDUSTRY

THE CASE OF KENYA AND ETHIOPIA

Report Prepared by the Centre for Business Innovation & Training (CBIT)

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ACRONYMS AND ABBREVIATIONS

CBIT	Centre for Business Innovation and Training
CETP	Common Effluent Treatment Plant
CLRI	Central Leather Research Institute
COMESA	Common Market for Eastern and Southern Africa
CPC	Community Processing Centre
EABC	East African Business Council
EAC	East African Community
EPZ	Export Processing Zone
GDP	Gross Domestic Product
GIZ	(Deutsche) Gesellschaft für Internationale Zusammenarbeit
IGAD	Intergovernmental Authority on Development
KLDC	Kenya Leather Development Council
LDF	Leather Development Fund
LIN	Leather Industry Network Platform
LLPI	(COMESA) Leather and Leather Products Institute
LSDS	Leather Sector Development Strategy
LVCS	Leather Value Chain Strategy
KIPI	Kenya Industrial Property Institute
NIRDA	National Industrial Research and Development Agency
NITA	National Industrial Training Authority
SDR	Secondary Data Review
SME	Small and Medium Enterprises
TPCSI	Training and Production Centre for Shoe Industries
UGX	Uganda Shillings
ULA	Uganda Leather Industries Association
UNIDO	United Nations Industrial Development Organization
USD	United States Dollars

1.0 INTRODUCTION AND INDUSTRY OVERVIEW

The leather industry has been a key player in the global commerce market for millennia, with claims that it may possibly be the second oldest profession in the world. Today it is indisputably a major industry of huge economic importance on an international scale. In 2007 alone, for instance, 23 billion square feet of leather was produced globally, accounting for around 45 billion dollars (Mahi, 2020).

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African countries host 15% of the world's cattle and 25% of its sheep and goats.

Africa is a prime actor in the global leather commerce market, contributing about 26% of the livestock production and 3.5% of the global leather. In addition to raw hides and skins, Africa’s export is predominated with semi-processed leather (mostly chrome tanned ‘wet-blue’) annually. Yet Africa conspicuously exhibits missed opportunities for its value addition pathways and creation of positive socio-economic indicators (Mwinyihija, 2016). African countries have 15% of the world's cattle and 25% of its sheep and goats, but produce only 14.9% of global output of hides and skins (8% of bovine hides, and 14% of sheep and goatskins). Exports of hides and skins have fallen in recent years to below 4%, yet leather is ranked very high as an export commodity in several African countries. The countries' tanning capacity has fallen from 9.2% to 6.8%. Import penetration of the domestic leather footwear markets by other developing countries is an estimated 73%. Leather and leather products generally account for less than 4% of total exports (ITC, 2004).

The total export of leather and leather products is particularly poor in East Africa despite huge endowment with livestock resources of cattle, sheep and goats, which provide a base for the development of the leather industry. The East Africa Community (EAC) region has 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 (EAC – Secretariat, 2018).

The principle enabling factor for all these global, continental, or regional commercial activities in the leather sector has been the policies that different regions and countries have put in place for this purpose. It is these policies promoting the leather industry that are of primary interest to this study, and to the LIN Platform Project under which it was conducted.

1.1 BACKGROUND AND CONTEXT

The Leather Industry Networking Platform (LIN Platform) is a collaborative initiative of the Centre for Business Innovation and Training (CBiT) and the East Africa leather consortium through the support of GIZ- EAC, and GFA Consulting Group. This was a twelve-month project that sought to establish a virtual leather networking platform that brings together all actors in the leather industry in the East Africa Community consisting of Burundi, Kenya, Rwanda, South Sudan, Tanzania and Uganda. The LIN Platform provides an opportunity for leather stakeholders to interact, obtain information and conduct business. The platform also serves as a forum for training and capacity building of stakeholders, as well as an advocacy space for discussing and pushing for policies that promote growth of the leather industry in the East Africa region.

The specific objectives of the project were to conduct a South-South leather business exchange with successful leather associations and companies to learn, establish strategic partnerships, and improve integration; and to establish a digital regional leather industry networking platform to strengthen dialogue, knowledge management and representation of joint policy positions. Other objectives of the LIN project were to build advocacy capacity for private sector leaders and stakeholders in the leather sector so as to create an effective public-private dialogue; and to promote information dissemination.

This study was conducted in line with the above project objectives, to contribute towards the improvement of policies that promote intra-EAC trade in leather and leather products. To yield practical policies that were already in use, the study looked at relevant policies being implemented in Ethiopia against those in Kenya, for comparative and learning purposes. CBiT conducted the study in the month of October 2020, and this is the study report.

The report presents the aim and objectives of the exercise, before it defines the scope of coverage, and the methodology adopted by the study. This is followed by a review of policies promoting the leather industries in the other five countries of East Africa, before it examines similar policies in Ethiopia against those in Kenya. A summative brief appears at the end in a manner of conclusion, and a recommendation of policies to be considered for enactment for the purposes of promoting growth of the leather industry in the East Africa region.

1.2 AIM AND OBJECTIVES OF THE STUDY

The aim of conducting this study was to provide information necessary for making informed recommendations on policies that should be considered in order to promote the growth of the leather industry in East Africa.

The specific objectives of the study were to:

- Identify existing policies promoting the leather industry of the different countries in East Africa
- Compare the policies promoting the leather industry in Ethiopia against similar polices in Kenya
- Use the study findings to make appropriate recommendations on policies to be considered for the promotion of the leather industry in East Africa.

1.3 STUDY QUESTIONS

To help in realising the stated objectives, the study set out to answer the following questions:

(i) Which are the existing policies promoting the leather industry of various countries in East Africa?
(ii) Specifically, which are the existing policies promoting the leather industries of Ethiopia and Kenya?
(iii) How do these policies compare?
(iv) Which policy lessons can the East African leather industry learn from its counterparts elsewhere?

1.4 SCOPE OF STUDY

The physical scope of the study was the East African region, composed of Burundi, Kenya, Rwanda, South Sudan, Tanzania, and Uganda. The study extended its scope to cover Ethiopia for comparative purposes only.

The scope of content centred on policies that promoted the leather industry of East Africa, with specific reference to Ethiopia and Kenya. For the ease of comparison, the exercise identified a number of common parameters to use, based on desk review of available literature, and all geared towards the promotion of East Africa leather industry:

- The livestock, and hides and skins culture
- Leather and leather products
- Leather and economic opportunities
- Policies and strategies for regional integration
- Policy challenges and constraints
- Existing policy opportunities

Leather Jacket. Photo Courtesy of Sanabora Design House

These parameters were not used exclusively, but rather to provide guidance in the comparison and analysis process where they were applicable.

1.5 STUDY LIMITATIONS

The first limitation of this study was access to information at a regional level on policies for the leather industry. Much as it is viewed as one economic bloc, the study encountered the reality that there are very few EAC legislations that cover the regional leather industry as a whole. This informed the limitation of the study to examining policies of one of the East African countries (Kenya) and compare them with those of Ethiopia.

The second limitation was access to policy documents from the East African countries. Policy documents by nature are government publications, whose final products are hard copies. It is seldom that soft copies of these documents are availed on-line by the respective ministries. This therefore created a challenge in accessing the policy documents, other than through occasional references in publications.

2.0 LITERATURE REVIEW

A desk review was conducted on available literature to obtain secondary information for the study, gain a better perspective of the subject matter, and obtain available background information on the study objectives. Feedback from this exercise is summarised below.

2.1 KEY STUDY CONCEPTS

The study found it important to clarify the following key concepts and, in the process, qualify how they would be used in subsequent discussions:

- Comparative: A number of authorities offered varied definitions of this term, but this study found itself inclined to go with the definition of Lexico (2020) as an activity "involving the systematic observation of the similarities or dissimilarities between two or more…subjects of study". This became the adopted meaning of the term "comparative" throughout the study.

- Policies: The study adopted the simple definition of policy as "a law, regulation, procedure, administrative action, incentive, or voluntary practice of governments and other institutions" (CDC, 2015). This definition was deemed appropriate as it took the policy concept beyond standard rules and regulations, and expanded it to include even incentives and even routine practices. The study found this more encompassing and therefore fitting for its purpose.

- Leather industry: The most applicable definition of the leather industry is from Leather Dictionary (2020): "in the strictest sense of the term, the leather industry covers the preserving of the rawhide after the slaughterhouse and the tanneries which process the raw skins into durable leathers. However, in the widest sense, the "leather industry" also includes the companies, which then process the skins into ready-for-use articles. These include the shoe manufacturers, the clothing manufacturers, the manufacturers of car upholstery and the furniture industry. But also the manufacturers of belts, bags and many other leather products". The study found this to be an inclusive definition of the terminology and was comfortable using it in its widest sense in subsequent discussions.

- East African region: The study looked at a variation of definitions prescribing the East African region, from the narrowest coming together of Kenya, Tanzania, and Uganda (the original East

African Community), to the widest expansion of the region covering the entire eastern coast of the African continent. For the purposes of this study, however, the East African Community (EAC) regional intergovernmental organization offered the most precise definition as the six (6) partner states, comprising Burundi, Kenya, Rwanda, South Sudan, Tanzania and Uganda (EAC, 2020). These countries form the EAC economic block that formed the central part of this study.

2.2 OVERVIEW OF THE EAST AFRICA LEATHER INDUSTRY

The East Africa region prides itself in hides and skins raw material endowment that accounts for 3 percent of the world total bovine herd, 5 percent of the goatherd and 2 percent of the sheep herd. The region posted a livestock population (2017) of 188.1 million (cattle, sheep and goats) (EAC – Secretariat, 2018). Unfortunately, like the rest of Africa, East Africa continues to scratch on the surface of the lucrative leather and leather products market. The region has not excelled beyond primary semi-processing of hides and skins, considered raw products in international trade. Value addition remains minimal, with approximately 90% of exports being in the form of wet-blue, raw hides and skins. Leather and Leather products are the most widely traded agro-based commodities in the world, with a global estimated trade value of over US$ 200 billion a year, and continues to grow.

Africa as a whole has remained a net importer of finished leather products losing out on the benefits brought about by export trade. The continent imports 23.4 million pairs of shoes annually in a quest to bridge its 725 million pairs of shoes deficit out of an estimated consumption of 880 million pairs of (calculated at 0.85 pairs per capita of the continents 1.1 billion population). Even with the ready market, the continent is only able to produce 154.9 million pairs of shoes annually.

Demand for finished leather products outweighs supply as illustrated in the EAC leather and leather products strategy. The monthly demand for pairs of industrial shoes (security, safety, industry) in East Africa, for instance, is about 600,000. However, current production is only about 60,000 shoes per month. The Region requires 2.5 million square feet of finished leather per month, to meet the current demand for industrial shoes, yet the production of finished leather is less than 100,000 square feet per month as most of the material is exported in the form of wet-blue. Currently, the shortfall in production has pushed up imports from the rest of the world viz a viz exports. A critical pathway to a progressive EAC is therefore the promotion of value addition.

A number of points could, therefore, be inferred about the historical development of the East Africa leather industry from the general information about the history of the leather sector in Africa. Thus:

- Livestock distribution and availability across East Africa and the availability of raw materials led to the formation of the East African leather industry. None of the six countries has this evolution been spurred by a conscious effort by the governments to invest in and stimulate leather industry development,
- The sector continues to suffer from value leakage owing to continual export of raw and semi-processed leather with a minimal competitive advantage,
- The policy framework is weak and not tailored to advance industrial growth of the leather sector,
- Offtake of hides and skins is low with over 30% is unusable owing to pre, peri and post slaughter defects,
- Tanneries on the other hand largely operate at 40% of their installed capacity,
- Hides and skins collection, preservation, storage infrastructure is unreliable

- Collaboration between government and private sector institutions is weak,
- Smuggling of green hides and skins continues unabated
- Weak value chain cohesion within EAC countries and at regional level
- Inadequate killed number of human resources at all levels of the value chain
- Weak and unreliable markets for leather and leather products

2.2.1 Key Policies

The study established on-going efforts towards the development of policy frameworks supporting the leather sectors across East Africa as a region. Some of these are discussed in the section that follows.

2.2.1.1 EAC Trade Policy

The East African Community under its common market offers free movement of goods and services, free movement of persons and labor, rights of establishment and residence, free movement of capital. Other areas of cooperation under the common market include protection of cross-border investments, economic and monetary policy, financial sector policy co-ordination, co-ordination of transport policies, consumer protection, among others.

The EAC community implements a common external tariff (CET), with three bands of 0% for raw materials and capital goods, 10% for intermediate goods and 25% for final/consumer goods. Tariff rates above 25% are applied on products treated as sensitive within the community.

Nationally, ministries in charge of EAC affairs are responsible for the coordination of implementation of community obligations/commitments, as well as monitoring/assessment of the policies. Other ministries including trade, economic affairs and finance, foreign affairs, transport and works are key in the implementation of obligations/commitments made at the community level.

The EAC has made significant trade policy reforms towards achieving the community's deeper integration agendas including fully-fledged customs union, common market, monetary union and political federation.

Trade facilitation initiatives covered by the community laws include the Treaty establishing the EAC, the Customs Union Protocol, Customs Management Act and the Common Market Protocol. The trade facilitation measures adopted by the community include, among others, adoption of the harmonized EAC customs procedures with reduced and standardized customs documents; standards, quality assessment, testing and metrology procedures; Single Window; Authorized Economic Operators; Electronic Cargo Tracking System; Single Customs Transit Guarantee Bond; Establishment of One Stop Border Posts (OSBP) to reduce delays in clearance of goods at border posts; Harmonization of Business Hours and attempt to operate on 24 hours in some border stations; Harmonization of transport regulations and standards and strengthen the NTB's monitoring mechanisms through national and regional monitoring committees.

2.2.1.2 Regional Policies for Livestock, Hides, Skins, Leather and Leather Products

To maximize the huge economic resource available in the region's leather sector, effective policies must be in place for the purposes of coordination and regulation. For this reason, the EAC has developed an EAC Leather and Leather Products Strategy and Implementation Roadmap (2020-2030) to address the challenges that the sector is facing and to serve as a road map to transform and develop the EAC leather and leather products value chain. The strategy is designed 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 also targets to improve the capture and retention of the intrinsic value of the sector from the current 15 percent to more than 50 percent; increase intra-EAC trade in leather and leather products from the current 1.5 percent to 10 percent; increase contribution to EAC GDP from the current 0.28 percent to 4-5 percent; growth of ex-ports to the global market from compounded annual growth rate (CAGR) of 22.4 percent (or US$ 131.2 million to US$ 1 billion); 500,000 new employment opportunities created, 2,000 small and medium size entrepreneurs trained; and, 10 footwear and leather products industrial clusters established in each Partner State per annum.

2.2.1.3 Policies and strategies for regional leather industrial integration and development

“ Taking up opportunities for trade and investment is dependent on the environment that businesses operate

The EAC region is pursuing a number of broad policy measures to address the region’s industrialization challenge. These include:

- Promotion of development of strategic regional Industries/Value Chains, including the leather value chain, and to enhance Value Addition as well as promotion of cross-border industrial linkages towards productive integration. These policies are tailored to exploit untapped natural resources in industrial development so as to spur growth of downstream industries, create backward and forward linkages across the region and to generate multiplier effects
- Strengthening national and regional institutional capabilities for industrial policy design and management to facilitate the design and implementation of effective policies by the public and private sector
- Enhancing the capacity of industry support institutions to develop and sustain a competitive regional industrial sector to adequately provide supporting services and support implementation of national and regional industrial programs
- Strengthening the business and regulatory environment by encouraging and facilitating private investment flows into the community by strengthening the business and regulatory environment, including adequate implementation of appropriate policies, laws and regulations necessary for the creation of a robust and thriving manufacturing sector
- Enhancing access to financial and technical resources for industrialization by increasing the availability of long-term financing, and to foster a joint and coordinated approach to accessing global and regional support initiatives for industrial development. This includes ensuring increased capital mobility, elimination of restrictions on the transfer of capital funds between Partner States, while at the same time exploring new long-term financial mechanisms to support the development of strategic regional industries
- Facilitating the development of and access to appropriate industrial skills and know-how by fostering collaboration in the development of industrial skills and utilization of human resources, technical know-how and institutional capabilities available in the region

- Enabling the development of MSMEs through a regional framework that supports the growth and development of MSMEs and their integration into the regional and global value chains
- Strengthening industrial information management and dissemination systems by establishing a reliable industrial information management system that facilitate timely access to quality industrial information for policy decision making, industrial competitiveness, monitoring and evaluation of performance
- Developing supporting infrastructure for industrialization through a comprehensive framework for the provision of an integrated infrastructure programme that facilitates industrialization
- Fostering and catalyzing creation of regional industrial research and innovation systems which facilitate private sector innovation, enhances capability in industrial science and technology and improves coordination in R&D&I
- Expanding trade and market access for manufactured products including leather through optimal utilization of the common market as a platform for invigorating industrialization setting up appropriate regulatory mechanism to manage unfair trade practices affecting growth of industries as well as developing the market for manufactured products.

Other complementary policies include measures to enhance access to quality and affordable energy supply; monetary and fiscal policies. Exchange rate policy affects the development of manufacturing firms, as well as their ability to compete in international markets and Infrastructure Development to address the region's infrastructure problem. In addition, the EAC is developing policies to facilitate the implementation of presidential directives on public procurement of leather products from manufacturers within the region. Policy proposals include; Local sourcing of School Uniform Policy- requiring that all schools provide shoes made from leather fully manufactured/processed in the region to all pupils; The Uniform Policy for disciplined forces – a requirement that all disciplined forces procure their boots/shoes from EAC region.

2.2.1.4 List of policies supporting the leather industry in East African countries

Below is a list of policies supporting the leather industry in East African countries

POLICY AREA	COUNTRY	EXISTING POLICIES AND STRATEGIES
Policies for livestock, hides, and skins	Kenya	- Animal Diseases Act of 1964 (for exports with animal fur) - CAP 359 (Hide, Skins and Leather trade Act) - Kenya Leather Value Chain Development Policy Framework
	Rwanda	- Rwanda Livestock Masterplan (2017)
	Tanzania	- Hides, Skins and Leather Trade Act of 2008
	Uganda	- Hide and Skin Trade Act, Cap 89 of 1964 - Animal Diseases Act of 1964 (for exports with animal fur)
Policies for leather and leather products	Burundi	- Burundi Leather sector strategy 2015-2019
	Kenya	- Kenya Leather Industry, Diagnosis, Strategy and Action Plan - The Kenya National Leather Policy - Draft Leather Policy of September 2020 - Investment Promotion Act No. 6 of 2004
	Tanzania	- Leather sector development Strategy (2016/2020)
	Uganda	- Uganda National Leather and Leather Products Policy of 2015 - Uganda Leather Value Chain Strategy 2015-2025
Policies on leather and the economy of the region	Rwanda	- Rwanda Leather Value Chain Comprehensive Strategy Framework - Strategy to Transform the Textile, Apparel and Leather Sectors
	Burundi	National Agricultural Investment Plan (NAIP)

Other policies affecting the leather industry	Rwanda	- The Made in Rwanda (MIR)Policy - National Strategy for Transformation
	Tanzania	- Integrated Hides, Skins and Leather Sector Development Strategy (IHSLDS) - Integrated Industrial Development Policy
	Uganda	- National Industrial Policy - Ugandan National Trade Policy

2.2.1.5 Policy challenges and existing opportunities for the region

While there exist a number of policies, their impact on the leather industry is hampered due to a number of challenges that include:

- Weak policy implementation and coordination framework for the region
- Weak policy environment that discourages investment in value added products
- Weak institutional arrangement to enforce quality and standards in the value chain
- Fragmented regional leather value chain
- Limited exchange of information, products and technology across the region
- Failure to abate smuggling of green hides, dumping and the infiltration of counterfeit products
- Weak enforcement of quality standards and labelling requirements
- Weak advocacy framework and private sector engagement

2.2.1.6 A summary of common thematic areas

From the available literature, the study identified the following thematic areas as ideal points of comparison for the leather industries of the targeted countries:

- The livestock, and hides and skins culture
- Leather and leather products
- Leather and economic opportunities
- Policies and strategies for regional integration
- Policy challenges and constraints
- Existing policy opportunities

3.0 METHODOLOGY

The study used the review of secondary data sources as the primary methodology. Secondary data review (SDR) is a rigorous process of data collation, synthesis and analysis building on a desk study of all relevant information available from different sources such as the government, NGOs, UN agencies, media, social media, etc. (ACAPS, 2014).

In espousing the advantages of using secondary data, Foley (2018) states that “secondary data set is typically already cleaned and stored in an electronic format, so the researcher can spend his or her time directly on analysing the data. Another benefit is the sheer volume and breadth of data that is publicly available today”.

Secondary sources of data that aided the study included the EAC – Secretariat (2018) leather and leather products strategy (2018-2019). The document provided valuable information about the leather industry across the East Africa region, as well as country-based information. Alongside this were the leather and leather products strategy documents for respective countries that the study managed to access. These gave an insight of the direction the leather sector of these countries was heading, and the relevant policies that were necessary for the success of their aspirations.

Equally important were the policy documents that the study managed to access, and the information obtained from them.

The study also included information gathered from primary sources of information including leather industry practitioners from different countries in the region. Their information offered first-hand insight into the leather industry dynamics from the point of view of an inside player.

4.0 FINDINGS OF THE STUDY

The section below makes a comparison of the policy framework supporting the leather industry of Ethiopia against that of Kenya. For purposes and ease of learning, findings on Ethiopia are presented first, followed by those about Kenya.

4.1 POLICIES SUPPORTING THE LEATHER INDUSTRY OF ETHIOPIA

The section that follows presents the policy framework supporting the leather industry of Ethiopia. It presents a brief background of Ethiopia's leather and leather product industry, followed by the policies supporting the industry.

4.1.1 Background of Ethiopia's leather and leather products industry

Ethiopia is endowed with a cattle population of around 52 million, ranking it first in Africa and sixth in the world. In addition, the sheep population is estimated at 27 million, placing it third in Africa and tenth in the world, while its goat population of 23 million ranks third in the continent and eighth in the world.

The off-take rate (annual proportion of animals sold or consumed) for cowhides is estimated at 14 per cent, with 27 per cent for goatskins and 40 per cent for sheep (LIDI, 2013). The country's industrial policy prioritises the Leather and Leather Products (LLP) industry as one of the sectors that can foster structural change in the economy. In 2013, the sector comprised 29 tanning companies that added value to hides and skins, 16 medium and large-scale footwear manufacturers with an annual production capacity of 15 million pairs, and 15 leather goods and garment companies that produced gloves, garments and bags (LIDI, 2013).

Value addition increases income from leather exponentially. For instance, in 2009, the average monthly earnings for workers exporting unprocessed products such as the raw hides and skins of sheep – the most profitable - was around 625 birr ($31), an amount that is 375 birr ($19) lower than the earnings of workers in the major processing firms (USAID, 2013). Therefore, workers engaging in value addition in the leather sector seem to receive on average higher earnings compared with those exporting unprocessed products such as hides and skins.

Export performance has also been remarkable, as the sector has experienced rapid growth in export revenues from 880,000,000 birr ($44 million) in 2004 to 2,200,000,000 birr ($110 million) in 2012 (UNIDO, 2012). In addition, foreign direct investment has increased from 920,000 birr ($46,000) in 2004 to 304,725,000 birr ($15,236,250) in 2009, primarily due to inflows from China and India (UNIDO, 2012).

The leather sector in Ethiopia provides significant employment opportunities. Employment has increased over time, from 6,989 workers in 2000 to 10,707 in 2010, representing an annual growth rate of almost 5 per cent. This has been vital in providing job opportunities and income to the country's abundant labour force, consistent with theoretical assertions that the industrial sector can be labour-intensive and instrumental in absorbing excess labour, especially that of unskilled workers (Mbate, 2016).

Growth of Ethiopia's leather sector is said to be as a result of effective policies set to boost investment and to expand the sector. The government has engaged several development agencies to help shape its leather sector development policy.

4.1.2 Industrial Policy Framework

The Ethiopian industrial policy framework is domiciled in the Plan for Accelerated and Sustained Development to end Poverty (PASDEP), the Industrial Development Strategy (IDS) and the Growth and Transformation Plan (GTP).

PASDEP and GTP were developed through consultations with the public, the private sector, civil society, non-government institutions and international development partners. PASDEP outlines the broad policy interventions, requiring the government to support the private sector, coordinate and guide investment decisions among different stakeholders and address market failures. PASDEP also emphasises the need to create a sound macroeconomic environment that supports entrepreneurship by establishing modern financial systems and addressing infrastructural deficits (Mbate, 2016).

The Growth and Transformation Plan (GTP) is anchored on the following specific objectives:

- Maintain at least an average real Gross Domestic Product (GDP) growth rate of 11.2 % and attain Millennium Development Goals (MDGs);
- Expand and ensure the qualities of education and health services and achieve MDGs in the social sector;
- Establish suitable conditions for sustainable nation building through the creation of a stable democratic and developmental State; and
- Ensure the sustainability of growth by realizing all the above objectives within a stable macroeconomic framework.

GTP II calls for an accelerated growth of manufacturing sector than the rest of other sectors. The Manufacturing sector contribution to GDP is targeted to grow from 4% to 8% by 2020. This policy thrust is being supported by attracting investment through the expansion of industrial parks and the provision of investment incentives. A combination of export and import-led development manufacturing activities are being promoted. The LLP was among the subsectors identified as the main priority sectors to contribute substantially to the growth of the Manufacturing Sector (Ethiopia Ministry of Industry, 2016).

IDS, for its part, speaks primarily to the leather sector, outlining four principles. The first is to underpin the private sector as an engine of industrial development. It calls on the government to promote private-sector development in order to boost competitiveness in prices, quality and entry into domestic, regional and international markets. The second principle relates to asserting the importance of agriculture in Ethiopia's industrialisation and promoting synergies. The third principle focuses on labour-intensive industrialisation based on a strategy of following comparative advantage, recognising the need to promote sectors that utilise the country's abundant resources and domestic raw materials. The last principle fosters mutually beneficial investment partnerships between domestic and foreign firms, hence supplementing domestic investment, promoting technology diffusion and boosting managerial and technical capabilities.

As a prelude, the Ethiopian Government established three policies as follows:

- The council of ministers' regulation to establish the leather industry development institute
- Investment proclamation No.280/2002
- Proclamation to provide for raw materials and skins marketing

These three policies could be said to be the three pillars upon which the Ethiopia's leather industry has been built

Council of ministers' regulation to establish the leather industry development institute

This policy sought to establish LIDI as an autonomous federal government office having its legal personality, and that it shall be accountable to the Ministry of Trade and Industry. The policy gave LIDI its powers, duties, and organization, with the advisory council, director general, and the necessary staff.

Investment Proclamation No.280/2002

Among other things, this policy sought to establish an Investment Authority of Ethiopia (IAE), with well-defined mandate. It allowed foreign investment to play its role in the country's economic development, enhanced the role of the private sector in the acceleration of the development of the country's economy, and strengthened the inter-sectorial linkages of the economy. The policy also intended to increase foreign exchange earnings by encouraging expansion in volume and variety of the country's export products and services, and the improvement of their quality as well as to save exchange through production of import substitution products. It also envisioned developing the domestic market through the growth of production, productivity and services. It planned to exploit and develop immense natural resources of the country. The policy specified investment incentives, areas of investment open to foreign investors, investments to be undertaken in joint venture with the government, forms of investment, capital requirement for foreign investors, investment permits and transfer of technology, loans, utilization of foreign currency, and remittance of funds.

A proclamation to provide for rawhides and skin marketing

This policy works to improve the existing retrogressive, inefficient and cost ineffective market structure of rawhide and skin, which creates negative impact on the competitiveness of the leather industry. It is designed to establish the rawhide and skin market structure that could avoid the existing rawhide and skin wastage and quality defects. The policy also implements an improved system of rawhide and skin collection, processing, storage and transportation to conduct marketing of raw hides and skins on the basis of quality standards. This is in addition to generating the raw hide and skin marketing structure to include: First level marketing of raw hides and skins; entailing individual producers and suppliers, individual producers and tanneries by dealings or auction and shall only be fresh or air dried. The prices shall be determined by the quality and shall be transferred to the processing and storage warehouse with transporting permit. Dealers shall have valid business license and, the second level marketing of raw hides and skins that shall be conducted between: Suppliers and tanneries; Big abattoirs and tanneries; export abattoirs and tanneries. The marketing conducted by dealings or auction, hides and skins may be fresh, air dried or salt dried. The policy also guides the hides and skins quality control, obligation of producers, obligation of suppliers, obligation of transporters, and those of tanneries. The state in Ethiopia offers a raft of services and incentives to foreign investors that not only increase the competitiveness of the factory price of the finished goods, but also make it easier to set up. The notable installations include:

i. The modern industrial park infrastructure for export only firms, which compensates for otherwise poor infrastructure as in the case with factories focused on the domestic market.
ii. There is the one-stop shop and specialized direct service in business registration, research, testing, skills development and regulation through the Leather Industry Development Institute.
iii. There are the government subsidies and tax incentives; tax exemptions on importation of inputs, corporate tax holidays of up to 8 years, Payee holiday for 2 years, VAT holiday on marketing of leather products etc., state development bank offering pre-shipment loans at 85% of purchase order, cost of electricity is lowest in the world as well as negligible cost of land leases at 1 Birr per acre;
iv. There is the total ban on the export of raw leather to encourage finishing as well as a 150% importation tax on leather importation creating a local demand for leather products.
v. The abundance of cheap labour, with a minimum wage sustained at about Birr 1400p/m (US$31) and with national population at 70% below age 27 years

Compared to Kenya, there are fewer incidences of bribery and rent seeking behaviour in this set up, lowering the hidden costs and increasing the ease of doing business. The policy direction in Ethiopia is credited with being the greatest contributor to its Leather industry development and competitiveness. The government's policy of centralizing all the agencies in the leather sector into one umbrella body has helped in visibility and cohesion of the industry.

It was also noted that the industry players that guarantee its relevance and its successful implementation as well as ownership initiate policy. The policy of value addition of all leather materials and non-export of raw leather has helped the industry to be sustainable. The policy governing importation of machines and technology required for the leather industry is both enabling and enhancing since it encourages adoption of innovation and guarantees quality and by extension competitiveness.

The policy to incorporate quality management systems at their production lines has gone far in ensuring quality products that compete globally. The policy on export quotas has ensured that the industry is able to meet its export demand supplies. The financial policy to offer bank credit guarantees to the investors is critical to the investors.

Ethiopian Government has invested heavily in encouraging Foreign Direct Investment to the leather sector and this has been the driver of the growth of the sector in Ethiopia. There may be some few negative effects but overall is credited with turning around the sector.

4.1.3 Leather Industry Development Institute (LIDI)

In 2004, the Ethiopian government established the Leather Industry Development Institute (LIDI) to drive the development of the LLP industry. LIDI's key mandate is to formulate policies, strategies and programmes to develop the leather sector, enhance the development and transfer of technology, and serve as a one-stop shop for potential investors. LIDI is equipped with modern technological facilities such as treatment plants, laboratories, computer-aided manufacturing software and training facilities, which are accessible to investors in the leather industry (Oqubay, 2015). It promotes domestic and foreign investment by providing investors with production and marketing technologies, and support services. LIDI's special focus is on small and medium enterprises in rural areas. It does this through its partnership with the Central Leather Research Institute in India.

It is also Ethiopian Government policy to brand all the leather goods products. It was also noted that some companies especially the FDI use their own brands from their countries of origin, thus enhancing market access as well as increased competitiveness. In Kenya the branding and patent acquisition have not been pursued as a matter of government policy for the leather sector. Branding has been pursued as an individual enterprise initiative

Among the industrial policies implemented by LIDI include the following:

i. Provision of information and support to investors. A key role of LIDI is to prepare and disseminate project profiles to guide investment decisions. It conducts feasibility and market studies on behalf of prospective investors.
ii. Enhancing human capital and technology accumulation. LIDI plays a vital role in promoting human capital development and the accumulation of technical and managerial skills in domestic firms. It connects the industry and institutions of higher learning, cooperating with universities in conducting joint research on product and human resource development. It has developed university programmes in leather technology. It supports footwear and leather goods manufacturing technology courses in 16 technical and vocational colleges, and conducts tailor-made training on manufacturing technology. By 2013, some 500 middle-level managers and technicians were being certified annually by LIDI.
iii. An Engineering Capacity Building Program (ECBP) was also launched to enhance labour productivity via skills upgrading in the industry. The ECBP has aligned the education system with the industrial sector by introducing and reforming dozens of undergraduate and graduate engineering degree programmes. It also supports the private sector by providing technical and managerial skills and linking domestic firms to international markets (LIDI, 2013)
iv. Promoting coordination between the government and various private sector entities. This has reduced cumbersome and bureaucratic procedures that constrain private investment and hamper the growth of the industrial sector. Through this LIDI role, registration and licensing of entrepreneurial ventures by the Ministry of Industry now takes less than an hour (LIDI, 2013).

This coordination ensures that the public and private sectors work together to identify challenges and opportunities in the industry.

v. Promoting green industrial production processes. LIDI ensures that firms adhere to industrial pollution-control standards by offering training on green technologies and also supporting effluent treatment. It has partnered with the Ministry of Industry to establish a common effluent treatment plant for more than 10 tanneries.

vi. Establishing fiscal incentives to boost competitiveness. Ethiopia has one of the friendliest business environments for investors. They are granted custom-duty exemption on imported capital goods, construction materials and spare parts up to 15 per cent of the import value. This tax exemption is also handed to imported inputs that are used in the production of LLP for export. A credit guarantee scheme has also been established to address funding in the leather sector. Having signed a bilateral agreement with 24 countries, Ethiopian investors avoid double taxation.

vii. The government exempts from income tax foreign experts hired in the industrial sector so as to build managerial and technical skills in domestic firms. There is also an Export Trade Duty Incentive Scheme that consists of a duty drawback plan, which refunds exporters 100 per cent of the duty paid on raw materials used in the production process; a voucher scheme for importing raw materials required to produce export goods; a bonded manufacturing warehouse scheme for exporters; and a foreign exchange retention scheme. Some 73 per cent of leather firms in Ethiopia reported that the foreign exchange retention scheme was implemented effectively (Oqubay, 2015).

4.1.4 What did it for Ethiopia?

In 2005, Ethiopia pulled its most promising tanneries into the finished leather sector (Arkebe, 2015:222–223). At first, the government supported upgrading by providing incentives such as new assistance for training and skill transfer, as well as low-cost finance for investments in upgrading. However, in 2006, Prime Minister Meles Zenawi announced that the government planned to push tanneries to move up the value chain (Eden, 2011).

The government achieved this by "shocking" the system twice by introducing export taxes designed to force firms to upgrade. In 2008, pickled and wet-blue semi-processed leather faced a new export tax of 150 per cent. Three years later, in April 2012, the 150 per cent tax was also applied to "crust" leather, the last stage before finishing.

The government also implemented a minimum price for exports of finished leather hides and skins to stop companies from trying to cheat by passing off cheaper semi-processed leather as the more costly finished leather, and to reduce problems of under-invoicing by foreign tanneries exporting to their own downstream operations (Mbate, 2016).

The policy intervention, which levied a heavy export tax on the export of raw hides and skins and crust leather products to encourage the production and export of finished leather products, shifted to value addition in the leather industry. Raw hides and skins and semi-processed leather products export was increased and fluctuated more before 2008; after the export tax on raw hides and skins in 2008, the export of raw hides and skins and semi-processed leather products dropped radically. Meanwhile, the export of finished leather products and footwear shows an upward trend after the government imposed the export tax, specifically after the 2012 export tax on crust leather products (Figure 5). Encouraged by this progress, world-known footwear companies from China, Italy, and the UK have shifted their facilities to Ethiopia. China's Huajian Group and Hong Kong's New Wing are examples of recently established shoe companies in Ethiopia (Workneh 2014, in Fitwek & Kalaba, 2016)

In 2011, only six of the country's 26 tanneries were equipped to produce finished leather (Eden, 2011). Five of the 11 Ethiopian tanneries in Mojo and Addis Ababa regions stopped exporting completely, and began selling semi-processed leather to other tanneries for processing. In the meantime, most Ethiopian tanneries moved to import new equipment, expertise, and chemicals that enabled them to regain their export markets. As a result, by 2015, twenty Ethiopian tanneries were producing finished leather for export. According to Abebe and Schaefer (in Fitwek & Kalaba, 2016)), the Ethiopian government's policies targeted at fostering value-added local processing have met with some success at the expense of Ethiopian tanneries. Some small local tanneries stopped exporting or greatly reduced their exports due to the new policy. Such tanneries then started selling semi-processed leather to other tanneries in order to survive. Abebe and Schaefer (2013) also found some evidence of technology upgrading in the leather sector, which created jobs and increased exports.

The new taxes also provided an incentive for new foreign investment. Since 2008, at least seven foreign firms have built large tanneries, while two foreign investors — the British glove firm Pittards and a Chinese group — purchased existing tanneries and upgraded them. Besides the shock-and-shape approach, the Ethiopian government also employed the "flying geese" model of industrial development. Under this model, as costs rise, production moves over time to lower-cost areas (Akamatsu, 1962; Lin, 2012). Like wild geese flying in formation, leading producers of a commodity cede their place within a value chain as they shift on to higher-value activities. This creates openings for the geese (countries) directly behind them to move up the chain and replace the more advanced economies as principal producers of the good. Ethiopia's 2002 Industrial Development Strategy understood very well that Ethiopia needed to attract a "lead goose" — i.e., a more technologically advanced firm from a slightly higher-cost country.

The number of investment licences awarded to companies in the leather sector has grown substantially since the adoption of the country's 2002 industrial strategy (Arkebe, 2015: 231), and footwear "Made in Ethiopia" is slowly gaining traction in Western consumer markets. The expansion and upgrading processes are reflected in trade and employment data. The value of LLP exports increased from an average of $53 million between 1996 and 2000 to $135 million between 2013 and 2017 (UN Comtrade, 2018).

In 2018, Ethiopia had 30 tanneries with 7,516 employees processing hides and skins to different types of finished leather. In 2018, the total wet-end installed capacity amounted to around 275 million square feet per year (LIDI, 2018a). The sector experienced significant FDI-inflows in recent years, with 10 of 30 companies being FDI in 2018.

In 2002, Ethiopia developed the Industrial Development Strategy, highlighting the potential of leather and leather products as one of the centrepieces of the agriculture-led development strategy. The strategy provided a diagnosis of the interlinked challenges of the leather and leather products industry: poor quality and insufficient quantity of skins and hides; weak institutions and poor coordination; inefficient marketing and weaknesses in technical skills

In summary, the leather and leather products sector in Ethiopia is a beneficiary of a number incentives, including:

- Improving service delivery (shortening period of licences, renewal of permits, etc.);
- Exemption from income tax;
- Importing equipment free of tax;
- Exemption of imported inputs for export purposes from indirect taxes;
- Credit guarantee scheme to lessen problems of working capital for exporters;
- Allotment of finance for loans for those engaged in export activities;
- Provision of access to infrastructure for those engaged in export.
- The establishment of industrial zones in all regions to addresses the infrastructural needs and land requirements of investors.
- The establishment of LIDI, to formulate and push through leather sector policies
- The abundance of cheap labour, with a minimum wage sustained at about Birr 1400p/m (US$31) and with national population at 70% below age 27 years
- A total ban on the export of raw leather to encourage finishing, and a 150% importation tax on leather importation, creating a local demand for leather products
- A one-stop shop and specialized direct service in business registration, research, testing, skills development and regulation through LIDI
- An improved system of rawhide and skin collection, processing, storage and transportation to conduct marketing of raw hides and skins on the basis of quality standards
- A policy intended to increase foreign exchange earnings by encouraging expansion in volume and variety of the country's export products and services

4.2 THE POLICY FRAMEWORK SUPPORTING THE LEATHER INDUSTRY OF KENYA

The next section presents a discussion on the policy framework supporting the leather industry of Ethiopia. Similarly, it starts by presenting a brief background of Kenya's leather and leather product industry, before it delves into the policies supporting the industry.

4.2.1 Background of Kenya's Leather and Leather Products Industry

Kenya, with a Gross Domestic Product (GDP) of $87.9 billion (World Bank, 2018[1]), is the largest economy in East Africa. The leather industry plays a very important role in the Kenyan economy and is identified as a priority manufacturing sub-sector in Kenya's Big 4 Agenda for the period up to 2022 (GoK, 2017[2]). The sector contributes about 4% of agricultural GDP & 1.5% of overall GDP. Besides, the industry occupies a prominent place in the economy in view of its substantial contribution to exports, its potential to propel Kenya's industrialization agenda by the year 2030, and the fact that it employs over 22,000 people.

[1] World Bank Group. (2018). Kenya economic update. *In Search of Fiscal Space - Government Spending and Taxation: Who Benefits?*

[2] Government of the Republic of Kenya, The President's Delivery Unit. (2017). *The Big Four – Immediate priorities and actions.*

Kenya holds the third largest livestock populations in Africa (ITC, 2018[3]) providing a strong raw material base for local the leather industry. The National livestock population was estimated at 18.8 million cattle, 26.7 million goats, 18.9 million sheep and 3.2 million camels, 1.9 million donkeys (KNBS, 2019[4]). In 2012, Kenya produced approximately 3 million hides, 4.3 million goatskins, and 2.9 million sheepskins, respectively accounting 10.67 % of Africa's total cattle hide production, 4.94% of goat skins (FAO, 2012[5]) & 3.75% of sheep & lamp skin. The hides and skins trade in Kenya has witnessed an upward trend in production signifying huge availability of raw material and potential for developing value-added downstream industry. According to the KNBS, 2.78 million cows were slaughtered, a 7.3 percent higher than 2017's 2.59 million cows. An 11.3 percent increase was also realized in the slaughter of sheep and goats 9.2 million to 10.2 million in the same period. This, therefore, presents great potential for sustainable economic growth and employment creation.

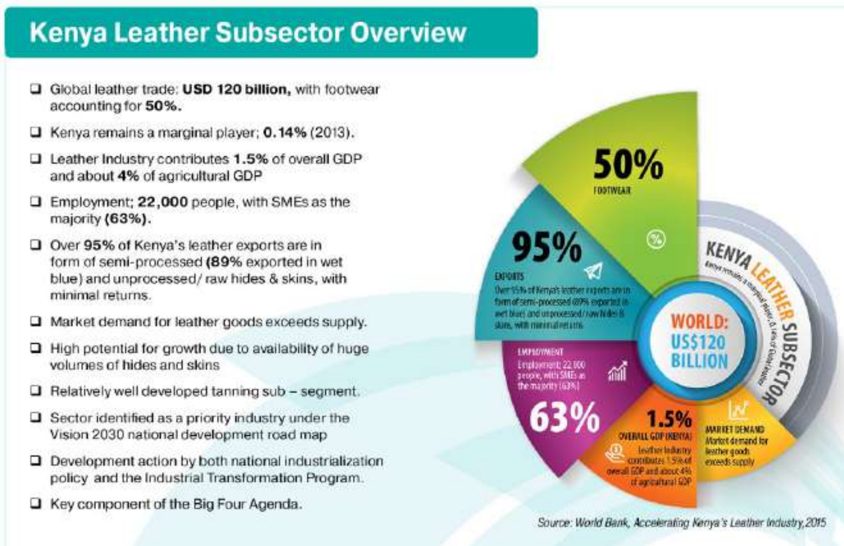

Figure 1: Overview of Kenya's Leather Industry as presented by World Bank, 2015.

Kenya's share of the approximately US$200 billion global markets for leather is estimated at US$ 140 million with great potential for growth, if exports of raw and semi-processed hides and skins that constitute over 95% of exports and valued at US$94 million, was abated. Value addition, therefore, remains low, at 5%, costing the country billions of shillings in direct earnings and thousands of job opportunities (Mwinyihija, 2014[6]; MoITED, 2015[7]; GoK, MoITED. & Word Bank, 2015[8]; GoK - Big4Agenda, 2017[9]). Further processing of the skins and hides, could create at least 50,000 jobs and $150-250 million (Sh15-25 billion) in GDP (ITC, 2018[10]).

The subsector is however under a number of constraints that continue to stifle its growth. These include low recovery and poor quality of hides and skins, use of old outdated technology, limited access to formal sources of finance and low private investment. Micro, Small and Medium enterprises, as well as traditional clusters are restrained by lack of physical and industrial infrastructure, high production cost, low productivity, lack of access to market information, inadequate availability of skilled manpower for

[3] International Trade Center. (2018). Leather Value Chain Investment Profile – Kenya.
[4] Government of the Republic of Kenya, Kenya National Bureau of Statistics. (2019). 2019 Kenya population and housing census. Volume IV: Distribution of population by socio-economic characteristics.
[5] Food and Agriculture Organization for the United Nations. (2017). Africa Sustainable Livestock 2050. Country Brief – Kenya.
[6] Mwinyikione, M. (2014) A Prognosis of the Leather Sector in Kenya: The Upheavals and Antidotes Associated with Value Creation.
[7] Government of the Republic of Kenya, Ministry of Industry, Trade and Industry Development. (2015). Kenya's Industrial Transformation Program.
[8] Government of the Republic of Kenya, Ministry of Industrialization and Enterprise Development. & World Bank Group. (2015). Kenya leather industry diagnosis, strategy and action plan.
[9] Government of the Republic of Kenya, The President's Delivery Unit. (2017). The Big Four – Immediate priorities and actions.
[10] International Trade Center. (2018). Leather Value Chain Investment Profile – Kenya.

both technical, managerial and innovation roles (GoK, MoITED. & World Bank, 2015[11]; ITC, 2018[12]; MoALFC, 2020[13]).

The above bottlenecks must be addressed to pave the way to delivery of targets set for the industry in the Industrial Transformation Program (GoK, 2015[14]) and in the Big4Agenda, among them: Enhancing revenue generation from the current KES 14 billion to KES 127 billion, offer a sustainable source of livelihood to 70,000 people, up from the current 22,000, establish 5000 cottage industries and have an equal number of the new workforce trained and to generate US$ 500 million From export of leather and leather products.

4.2.2 Introduction to Kenya Leather Policies

The legal reference in the sub-sector remains Hide, Skins and Leather Trade Act (CAP 359) of Kenya Laws. Cap. 359 sets out rules relative to the trade in hides, skins, and leather in Kenya. Every purchase of those goods specified in the title of this Act is forbidden unless the buyer, the importer, or the exporter are in possession of a valid license. Furthermore, every premise used for the purpose of curing or processing hides, skins, and leather has to be approved as suitable for that purpose by an inspector and registered. The minister may make other rules for the purposes of improving the quality of hides and skins.

In 2020, the Ministry of Agriculture, Livestock, Fisheries and Cooperatives came up with the Kenya National Leather Development Policy. This was informed by the fact that in spite of the significance of the leather sector to Kenya's development agenda, there has been a lack of policy dedicated to its development in the past. While there have been broad-based national policies that had implications for development of the sector, lack of a comprehensive policy has contributed to its underperformance. Majority of the leather manufacturing enterprises are also Micro and Small Enterprises (MSEs) operating informally with limited productivity growth. Past national broad-based policies have also not viewed the leather sector comprehensively thus resulting to policy fragmentation and implementation challenges. Additionally, the leather sector in Kenya has several actors at national and county levels along the value chain, including government ministries, departments, and agencies; private sector and development partners, requiring coordinated interventions that create synergy. Although the sector is currently underdeveloped, there exist significant opportunities to leverage on abundant raw materials and reputation for quality leather products to revitalise the sector to generate employment opportunities for innovative and a youthful population. Further, this policy is necessary to mainstream national, regional, and global developments and best practices that will deliver an internationally competitive leather and leather products.

4.2.3 Kenya National Leather Development Policy

The Kenya National Leather Development Policy's main objective is to guide and drive the growth and development of the leather sector in order to realise its full potential and contribute significantly to national economic growth.

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[11] Government of the Republic of Kenya, Ministry of Industrialization and Enterprise Development. & World Bank Group. (2015). Kenya leather industry diagnosis, strategy and action plan.

[12] International Trade Center. (2018). Leather Value Chain Investment Profile – Kenya.

[13] Government of the Republic of Kenya, Ministry of Agriculture, Livestock, Fisheries & Cooperatives. (2020). Hides, Skins & Leather Development Strategy.

[14] Government of the Republic of Kenya. Ministry of Industry, Trade and Industry Development. (2015). Kenya's Industrial Transformation Program.

The policy will provide a structured framework for the coordinated execution of the roles and responsibilities of all the participants across the value chain. This will ensure equitable distribution of resources and opportunities to all players, including marginalised clusters, micro, small and medium enterprises, and unrepresented practitioners to promote fair trade and competitive practices.

In particular, the policy seeks to:

i. Promote sustainable supply of quality hides and skins;
ii. Promote production of competitive and quality finished leather and leather products;
iii. Enhance access to domestic and export markets of finished leather and leather products;
iv. Enhance infrastructural support at the national and county levels throughout the leather value chain;
v. Develop and improve skills for the sector across the value chain;
vi. Enhance compliance with product and environmental standards along the value chain;
vii. Promote innovation, technology acquisition and adoption along the value chain;
viii. Promote linkages along the value chain among all state and non-state actors; and
ix. Provide a conducive, legal and regulatory framework to support the leather sector.

Overall, the policy will provide a roadmap for better coordination and management of the whole sector.

4.2.4 Kenya National Quality Infrastructure Policy

The Kenya National Quality Infrastructure Policy, 2019 is instrumental in promoting quality standards in Kenya relating to products, measurements, materials, processes, services, etc. and their promotion at national, regional and international levels; certification of industrial products; assistance in the production of quality goods; quality inspection of imports at ports of entry and market surveillance; offering the traceability to the SI units of measurements; improvement of measurement accuracies, is overseeing the National Measurement System and dissemination of information relating to standards (KEBS, 2019). The policy is informed by the need for a strategic approach to address challenges that continue to undermine quality products destined for the Kenya market or manufactured in Kenya and to ensure that they comply with international standards by being subjected to internationally recognized accreditation system of conformity assessment to support the rapidly growing international trade and globalization.

According to the Kenya Investment Authority (KENINVEST), Kenya is striving to become an industrialised, middle-income country by 2030 and developing the leather and leather goods sector offers an opportunity for industrialisation and diversification of exports. The target for the manufacturing industry is to raise the sector's contribution to the Gross Domestic Product (GDP) from less than 9 per cent to 15 per cent by 2022.

4.2.5 Kenya National Export Development Plan & Strategy - Leather & Leather Products

Kenya seeks to reverse the downward trend of Kenya's export performance by way of targeted sectoral export growth through the value chain approach that ensures direct link of domestic sector value chains to target destination markets. Through the export strategy the country aims at closing the Balance of Trade Deficit through export growth at an average annual growth rate of 25% by 2022 through factor productivity and stimulating overall factor employment and economic development.

In its quest to transform Kenya's economy through export led growth in industrial sector, the government of Kenya has set in place industrial transformation interventions expected to stimulate industrial output, leading to the manufacturing sector's output contribution to GDP rising from 8% (or KES 648 billion) in 2017 to 15% of GDP (or KES 2.2 trillion) by 2022. This enhancement will be realized through projected growth of manufactured exports at an average of 31% per year over the period 2018 to 2022. Among priority industries that will drive manufactured exports growth include Leather and Leather Products

The Government, under the Manufacturing Sector Pillar of the Kenya Industrial Transformation Program (KITP, 2015) foresees the leather and leather industrial sector playing a crucial role in the industrial transformation of the economy. The transmission mechanism for this transformation is moving processing further from wet blue into crust finished leather, and production of leather products such as shoes, belts and bags for local and export markets while increasing export revenue in the industry to Sh50 billion in the next five years.

To that end the Kenyan government has rolled out a number of interventions, among them: Development of Leather Industrial Park in Kinanie; Training and equipping Leather shoes and leather goods manufacturers; Develop Kajiado Leather Factory; Leather Investment Promotion and, and Development and review of Leather Sector policies.

ITC (2018) offers that Kenya's external trade policies are designed to create an environment conducive to promoting its products in international markets, especially those of the developed countries in Europe, the United States of America and Japan, as well as intra-African trade. Trade policies are formulated with the view to speed up Kenya's industrialization process, and in such a way make access to foreign markets easier for Kenyan products. In pursuing these objectives, Kenya has entered into multilateral, regional, bilateral and preferential trade arrangements. Kenya is a member of several trade arrangements and a beneficiary to trade enhancing schemes, including:

- World Trade Organization (WTO): Being a member of the WTO implies that Kenyan products have access to more than 90 % of world markets at most-favoured-nation (MFN) treatment;
- African Growth and Opportunity Act (AGOA): This is a non-reciprocal trade preference agreement offering certain commodities from eligible Sub-Saharan African countries duty-free access to the United States of America's market. AGOA has been renewed until 2025;
- Trade and Investment Framework Agreement (TIFA): Signed between the United States of America and the East African Community (EAC) in 2008. This provides strategic frameworks and principles for dialogue on trade and investment issues between the United States of America and the other parties to the agreement;
- Economic partnership agreements (EPAs): These are agreements between the EU and African, Caribbean and Pacific countries and regions (ACP) that aim to promote ACP–EU trade – and ultimately contribute, through trade and investment, to sustainable development and poverty reduction;
- Cotonou Partnership Agreement (CPA), also known as African Caribbean Pacific European Union (ACP-EU) Partnership Agreement: This agreement established the Generalized System of Preferences (GSP) – a non-reciprocal preferential treatment granted to developing countries;
- Everything But Arms (EBA): This is a European Union (EU) initiative under which all imports to the EU from the least developed countries (LDCs) are duty-free and quota-free, with the exception of armaments;

- African Continental Free Trade Area (AfCFTA): This refers to the free trade area agreement between 44 member states of the African Union signed during the 10th Ordinary Session of African Union Heads of State summit held in Kigali in March 2018. The AfCFTA is now the largest free trade area since the creation of the WTO.

These multilateral trade agreements not only give Kenya preferential access to a global market valued at approximately $ 36.8 trillion, but also to a network of more than 1.4 billion potential consumers (ITC, 2018).

4.2.6 Trade Policy

Kenya's trade regime is liberalized, except for a few import-licensing controls based on environmental, health and security concerns. The primary objective of the trade policy is the promotion of exports of consumer and intermediate goods, while simultaneously laying the base for eventual production of capital goods for domestic and export markets. For this, the Kenyan Government has put in place various incentives, such as the duty and VAT remission, Manufacturing under Bond Scheme, and export processing zones. This is reinforced by the pursuance of a flexible and realistic exchange rate that promotes exports.

4.2.7 Investments Policy

Kenya's investment code, articulated in the Investment Promotion Act No. 6 of 2004, was designed to shape the administrative and legal procedures to achieve a more effective investment climate. The Investment Promotion Act's goal was to attract and facilitate investment by assisting investors in obtaining licenses necessary to invest and to provide other assistance and incentives (ITC, 2018)

Investment incentives include: Corporate tax holidays of 10 years; Corporate tax of 25 % for another 10 years; Withholding tax holidays of 10 years on remittances to non-residents; Stamp duty exemption; Import duty and VAT exemption on raw materials, machinery and other inputs; Investment deduction of 100 % over 20 years on building and machinery for those operating under export processing zones and special economic zones. The country also offers special economic zones (SEZs) with the following benefits: Corporate tax of 10 %for the first 10 years; Corporate tax of 15 % for another 10 years and 30 % for the 21st year; Withholding tax holidays of 10 years on remittances to non-residents; Stamp duty exemption; Import duty and VAT exemption on raw materials, machinery and other inputs and Investment deduction of 100 % over 20 years on building and machinery.

In addition, Kenya has put in place a fully developed one-stop centre (OSC) under the Kenya Investment Authority (KenInvest). At the OSC, investors can centrally access institutions such as the National Environment Management Authority (NEMA), Kenya Power, Registrar of Companies, Kenya Revenue Authority, Export Processing Zones Authority, National Social Security Fund, National Hospital Insurance Fund, Kenyan Department of Immigration, and Nairobi County Government.

In the leather sector, Kenya is implementing a new leather-related investment projects and providing aftercare services for new and existing investments.

The development of the leather sector is one of the top priorities of Kenya's Industrial Transformation Programme (ITP). This policy aims at supporting several facilities already present at the national level, including 25 formal footwear manufacturing units, 11 registered leather products, micro, small and medium-sized enterprises (MSMEs), 15 registered tanneries, 4 packaging and logistics companies, a small and medium-sized enterprise (SME) park, and a training centre for increased value-addition.

4.2.8 Discussion and Analysis

This study infers that:

Ethiopia

- Ethiopia's policy regime has served to encourage growth and investment in the leather industry to include export quotas for all companies producing leather products, cheap importation of relevant technology and machines for developing the industry, ban on exportation of raw materials and value addition of all hides and skins before export.

- The country's infrastructural provisions specifically the state-of-the art industrial parks; Newly built Addis-Djibouti electric-powered railway; Ethiopian Airlines - Africa's largest and most profitable airline flying to over100 cities and 36 dedicated cargo destinations; Globally competitive cost of energy; Expansive Road Networks connecting Ethiopia to national and regional markets provide a firm foundation for the industry to thrive.

- A cohesive industry and effective institutional support are a key contributor to the growth of Ethiopia's Leather Industry. All leather industry associations are under one umbrella body a fact that promotes a common front in policy formulation and ease of business collaboration. Additionally, the sector enjoys well-coordinated and collaborative capacity building interventions.

- Ethiopia's leather sector branding policy has succeeded in improving visibility of the leather industry. This is further reinforced by the biennial exhibition of its products through the "All Africa International Leather Fair" that is used to promote growth of Ethiopia's leather industry.

- The government of Ethiopia has succeeded in encouraging Foreign Direct Investment by commitment to implement policies and by delivering their promise of incentives. Among them: A centralized management of all state agencies in the leather industry; Tax-exemption policy on importation of machinery and technology for development of the leather sector industries; Export quotas for the company's manufacturing leather goods; The Public Private Partnership in steering the leather industry; Actualizing their policy on value addition towards finished leather products; Succeeding in putting a stop on exports of all hides and skins raw materials during industrial take off; competitive access to land, electricity ; water and labor.

Kenya

- Kenya's lack of competitiveness results from the high cost of production inputs, lack of machinery, and the low quality of final products (World Bank, 2015). For instance, it can be as much as 30 per cent more costly to produce a pair of low-cost men's leather shoes in Kenya ($9.44) than in Ethiopia ($7.28).

- While there are a number of polices that could spur growth of the industry, their implementation has been hampered due to weak political will-power. Such policies have borne little effect to industry. Kenyan government should not only facilitate development of effective policies, but also commit to their implementation.

- Effective implementation of policies needs a stable environment that permits their full implementation. This has not been the case for Kenya. The erratic nature of enacting and revoking policies continues to impede growth of the leather sector in Kenya.

- The cost of entry into the leather industry in Kenya sector remains high while as the business environment maintains a hostile outlook towards MSMEs. Government policies to encourage local production of manufacturing inputs; Tax exemption for machinery, chemicals and accessories for the leather sector; Effective implementation of appropriate tax exemption policies remain ineffective.

- Industry cohesion is still at infancy as especially between government and the private sector as well as within government institutions.

- Trade in hides and skins in ad hoc with existing policies failing to curb rampant smuggling of raw hides and skins. The price and quality of the hides and skins is also largely affected by the weak policy environment.

- There is need for Kenya to rethink its industry support system. An all-encompassing, industry friendly, business-oriented leather industry development framework that can deliver: Effective policies; A critical mass of skilled workforce; Market the industry locally, regionally and internationally; Regulate the sector and undertake research and development among other functions could place the industry onto a sustainable growth path.

Following the above insight, the strategic question, therefore, is how Kenya and the East African region at large, can advance growth of the leather sector through policy? What policy lessons does the Ethiopian model present?

4.2.9 Policy implications for Kenya

This paper attempts to compare the effectiveness of policies supporting the leather sector in Kenya and Ethiopia. It finds that the policies in Ethiopia are more specific and robust, more faithfully implemented and have led to faster growth of the leather and leather products sector in the Eastern African nation. It finds that industrial policy institutions constitute key ingredients of an effective industrial policy framework and that well-functioning institutions can address market, coordination and high costs of business that kill competitiveness and cripple industrial development.

The Ethiopian example underscores six key policy interventions that Kenya and other East African countries can take into account in developing their own leather sectors.

First, there is a need for Kenya to appreciate its comparative advantage in the leather sector, owing to its animal numbers and relative, if marginal, industrial advancement in the region – and steer its development agenda towards maximising its potential. This focus needs to come at the highest level of government to get the resource allocation and attention it needs.

Secondly, this study underpins the need for public institutions to work closely with the private sector to identify challenges and opportunities in the leather sector. The government should interact with the private sector and other stakeholders in coming up with policies that support firms in terms of information, technology and market access. Addressing infrastructural deficits identified by stakeholders is central to promoting an investment-friendly environment. Electricity costs are still prohibitive in Kenya and its reliability is wanting.

Thirdly, formulating competitive fiscal incentives that support domestic firms is key in improving Kenya's competitiveness, not just in the region but also internationally. It is 30 per cent more costly to produce a pair of low-cost men's leather shoes in Kenya ($9.44) than in Ethiopia ($7.28), according to an October 2015 World Bank report.

Fourthly, the study stresses the importance of skills development in building an industry. Kenya needs to strengthen its weaker link between college and industry so that universities can play a bigger role in the sector. It needs to develop courses that address themselves to the challenges and opportunities in the leather sector. Policies that incentivise skilled foreign workers to work in Kenya's leather sector also go a long way in bridging the skills gap.

Fifth, policies need to have measurable and verifiable steps if they are to translate into desired results. Progressive though Kenya's latest policies may be, they are short on specific measures to be undertaken.

Finally, facilitating technological diffusion and innovation is equally important in enhancing productivity. Donors and international development agencies can provide capacity building and policy advice. Aligning donor support with industrial development and sharing industrial experiences can provide Kenya and other East African countries with the much-needed expertise.

5.0 CONCLUSION AND RECOMMENDATION

A typical comparative study identifies the objects of comparison, before outlining the parameters for comparison. These are then followed through chosen methodologies, resulting in bringing out the desired message.

This study set out to compare the policy environment supporting the leather industry of East Africa the region, as well as the individual East African countries of Burundi, Kenya, Rwanda, South Sudan, Tanzania, and Uganda. These were juxtaposed against southern hemisphere countries of Egypt, Ethiopia, and India. The chosen methodology was the review of secondary data, especially those available on-line, from where the study obtained information that constitutes its findings. The study established that not many countries post their policy documents on-line, making accessing policy information a big challenge. The information that was obtained appear in this report, and will form a basis for advocating for the digital sharing of such information between the East African countries, for the purposes of learning from each.

It was from the above findings that the study made the following conclusions:

i. Policies need to have measurable and verifiable steps if they are to translate into desired results. Most of the existing policies are short on specific measures to be undertaken, delaying their impact on the leather industry.

ii. Policies supporting skills development are crucial in building the East African leather industry. Successful countries like Ethiopia did this and the impact it has had on the leather industry is beyond measure
iii. Policies formulating competitive fiscal incentives that support domestic firms is key in improving the competitiveness of the East African leather industry.
iv. Proper animal husbandry to ensure that quality hides and skins come out of the abattoirs, for quality finished leather to come out of the tanneries
v. Tackling the smuggling of hides and skins as a way of ensuring sufficient finished leather for in-country consumers, as well as for export
vi. Nomenclature: Policies should be passed to ensure that non-leather products are identified for what they are, rather than hiding behind references like “imitation leather”
vii. Branding
viii. Obtain funding and conduct similar comparative studies for each of the East African countries to capture country-based policy position for each country. The resultant information could be used to update this report.

Based on the above findings, this study put forth the following policy recommendations:

i) **Harmonization of Hides & Skins Policy** across East Africa to curb smuggling of green hides, and to promote production of quality hides and skins: The policy should be designed to enhance collection of raw hides and skins and their marketing. It should also accommodate: Traceability, where materials can be traced back to source; Clearance and shipping of hides and skins upon submission of a health certificate; Shippers to submit a monthly shipping line manifesto report to Department of Veterinary Services or equivalent regulatory body; Re-introduction of movement permit; Effective monitoring and surveillance; Enforcement of heavy penalty to smugglers.
ii) **Harmonization of Nomenclature:** For the ease of categorization of the type of footwear/leather goods, there is need of harmonized system to differentiate non-leather products that are disguised as leather products. The counterfeit products passing as leather have found their way into the regional market and consumers are not able to differentiate. In addition, it affects the market for genuine leather products. Therefore, adopting a unified naming and description of leather could safeguard against imitations and counterfeits. Categorization can also assist in creating tariffs and tax for specific products, rules of origin and outa controls.
iii) **Branding (guidelines for BEABEA [BRBR, BUBU, BBBB, BKBK, BTBT, BSBS]):** Enactment of policy that will require that all the leather products made in the EA region are branded. Most countries in East Africa have not pursued branding, intellectual property rights and patent as a matter of government policy for the leather sector. The policy will also enable the identification of leather emanating from the East Africa and its unique properties. Branding has been pursued as an individual enterprise initiative.
iv) **Stakeholder engagement policy:** To promote effective stakeholder engagement. This will ensure all relevant leather sector stakeholders are provided a fair and meaningful opportunity to participate and contribute to problem solving, planning and decisions made by governments in the region. Effective stakeholder engagement is fundamental for the development of policies that are pro-industry.
v) **SME public procurement policy:** There is need for policy measures that make public procurement more accessible to SMES. SMEs make up of over 80% of players in the leather industry but are often disenfranchised from public procurement due to their limited capability especially in terms

of volume. Benefits brought about by public procurement campaigns and promotion of local content across East Africa have often escaped this category of players in the industry. For this reason, a leather SMEs development policy that breaks down these barriers would not only allow growth of this enterprises but also that of regional economies.

vi) **Trade tariffs and barriers:** The implementation of levies and taxes by the Kenya government on raw hides and skins has seen the increase on the number of tanneries processing leather. In addition, the increase in tax of imported leather footwear has seen increased number of volumes produced locally. Change of procurement of government goods regulation that stipulate that product be sourced locally has also seen a number of manufactures upgrade their facilities and produce product for the government. Such policies have a positive impact in the development of the letter sector. Collective application of the policies across the east Africa can immensely boost the leather industry in the region.

vii) **Policy on Capacity Building:** The East African countries to come up with policies on capacity development and technology transfer to accelerate the development of the leather sector. One of the major constraints in the growth of leather sector is qualified personnel along the value chain. For any sector of the economy to develop, there must be a deliberate effort to develop human capacity and technology transfer. Ethiopia and Egypt came-up with deliberate policy on training for leather sector and seeking technology transfer from developed countries/mature technologies from advanced manufacturers. This helped accelerate the learning curve and taking shorter time to develop competencies and have appropriate technologies.

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