Improving competitiveness of SMMEs through the Private Sector Development Programme Botswana

Leather value chain analysis and action plan

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"The Private Sector Development Programme is an initiative of the Government of Botswana, represented by the Ministry of Trade and Industry (MTI) and the Ministry of Finance and Development Planning (MFDP), in partnership with the European Union (EU). The Programme is supported by the Centre for the Development of Enterprise and Business Botswana."

Foreword

Leather value chain analysis and action plan

The Leather value chain study is based on a comprehensive analysis of the challenges and growth potential of the leather sector, the study introduces pragmatic initiatives for a sustainable leather industry in Botswana.

The most important outcome of the study is a defined action plan, which can be executed by both public and private stakeholders. One of the key actions proposed is to encourage an increase in the collection and recovery rates of hides/skins in Botswana, by developing a national pricing mechanism or scheme, as well as the establishment of an effective Leather Processing Institution and Trade Association.

This study also provides practical tools that can be used by Government and Intermediary Organizations to effectively develop the leather value chain.

The mobilization of the stakeholders on the implementation of the action plan will have a positive impact on investment, employment and new skills opportunities.

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Acronyms

BDC	Botswana Development Corporation
BMC	Botswana Meat Commission
BMO	Business Membership Organisation
CDE	Centre for Enterprise Development
BOBS	Botswana Bureau of Standards
CEDA	Citizens Entrepreneurial Development Agency
CLRI	Indian Central Leather Research Institute
EDD	Economic Diversification Drive
FDI	Foreign Direct Investment
H & S	Hides and Skins
LEA	Local Enterprise Authority
LIDI	Leather Industry Development Institute
LLPI	Leather and Leather Products Industry
MSE	Medium and Small Enterprise
MTI	Ministry of Trade and Industry
PSDP	Private Sector Development Programme
R&D	Research and Development
SACU	Southern African Customs Union
SME	Small and Medium Enterprise
TO	Turnover
UNIDO	United Nations Industrial Development Organisation
VC	Value Chain

Executive Summary

This report on the Botswana leather sector is a component of the wider *Value Chain Analysis in Emerging Sectors*, a Government of Botswana initiative, undertaken under the Private Sector Development Programme (PSDP), which is supported by the European Union and the Centre for the Development of Enterprise. The main purpose of the study is to map the sector's value chain, identify key actors, highlight bottlenecks and upgrading opportunities, enabling the development of a national strategy and an action plan. Methodological tools used involved analysis of statistics and relevant documents, targeted interviews of 33 value chain actors, and benchmarking.

Major findings of the intervention are that:

- Botswana's leather sector is a by-product of the meat industry;
- 350,000 hides, and 80,000 sheep and goat skins are produced annually;
- most small stock animal skins go to waste for want of adequate slaughtering and collection;
- Kgalagadi, Central, North and Kwaneng districts account for 50% of hide and skin production;
- hides and skins are mostly exported in semi-processed form (wet salted, soaked, pickled) since wet blue production was discontinued in 2006 for environmental reasons;
- tanning is mostly done by 300 artisanal SMEs;
- less than 3% of hides and skins are processed into final leather products;
- Botswana derives very little economic benefits from the sector because of low-value exports;
- opportunities lie in upgrading product quality (wet blue tannery) and leather goods manufacturing;

The goat sector has no specific business membership organisation, but the LEA has developed a High Level Strategy for the Development of the Leather Industry and assistance has been provided by MTI and BMC. Export licenses are required.

The key features of the Leather Value Chain are:

- actors include hide and skin producers (93 abattoirs), collectors (over 100), processing (300) and manufacturing (footwear and other items);
- the sector provides a total of 1,260 jobs of which 57% in slaughtering and 14% in manufacturing;
- total value of semi-processed leather is P39 million;
- overall productivity is low and non-material costs make Botswana uncompetitive;
- chemical inputs are mainly imported from South Africa, but 82% of vegetable materials used by artisanal tanners, are sourced locally.

Ethiopia has been selected as the most appropriate benchmark for the Botswana leather sector, because it is in the top three African producers and the fourth world exporter of hides, skins and leather. Environmental conditions are comparable to Botswana's. Ethiopia has banned wet blue exports and crusted leather, and imports of unfinished leather are taxed 150%. Incentive policies and twinning with Indian leather organisations have promoted and upgraded the sector and improved quality.

Recommended actions, summarised in an outline Action Plan, include:

- bringing together a broad range of stakeholders to represent sector interests, i.e. through a dedicated leather institution, the development of a quality assurance programme, research and training activities, and design of a cluster approach (industrial leather park):
- increasing collection and recovery of hides and skins by an appropriate pricing scheme, and competitive auctioning;
- encouraging the processing of, and value adding to hides and skins through export quotas, easier access to finance for processors and vertical integration along the value chain;
- supporting the development of a high quality and viable leather market, implying technical, design, management and marketing skills, and a national campaign to promote locally produced leather products.

Introduction

Objective

This report presents the findings of the leather sector component of the study "*Value chain analysis in emerging sectors*" undertaken under the Private Sector Development Programme PSDP)[1]. Value chain analysis is a useful tool for understanding the potential of industries, and through the application of this approach, new insights have been gained and valuable new strategies developed, both at the micro-economic (company) level and at the macro-economic level.

The Methodology was based on a literature review of the sector, analysis of statistics, value chain mapping, survey of 33 actors throughout the value chain and benchmarking with other countries. Based on this, a national strategy and Action Plan have been outlined for discussion by the stakeholders.

The value chain analysis in this report describes the overall leather value chain, apportions costs to the different elements within each segment and details the relationships and mechanisms between them. The Analysis allows comparison through a Benchmarking exercise with Ethiopia whose Leather Sector, although much larger, is comparable to that of Botswana. This comparison, in turn, allows the identification of where Botswana's leather sector performance is better or worse and therefore where action can be taken to improve individual areas of activity.

[1]The Private Sector Development Programme is an initiative of the Government of Botswana, represented by the Ministry of Trade and Industry (MTI) and the Ministry of Finance and Development Planning (MFDP), in partnership with the European Union (EU). The Programme is supported by the Centre for the Development of Enterprise and BOCCIM.

Overview of the Leather Sector in Botswana

Production

In Botswana, hides and skins are recovered from commercial slaughterhouses, butchers, collectors and artisanal tanners. Taken together, these actors process over 350,000 head of cattle, 40,000 sheep and 40,000 goats annually. Raw product supply is dependent upon the animal population. The bovine, sheep and goat population is of the order of 3 million, 273,000 and 1.7 million respectively.

Based on Table 1 below, representing imports and exports, it is evident that there are more imports of articles of leather, saddles, harness, travel goods, handbags and similar containers by value compared to total imports and exports of raw hides and skins (other than fur skins) and leather[2]. This suggests that Botswana is a major net importer/consumer rather than exporter of leather and leather products. Moreover, it can be concluded that Botswana currently has limited value addition capacity as most of the skins and hides produced are exported.

Table 1: Total Exports and Imports at Chapter Level (Pula) – 2011

Chapter	Description	Imports	Total Exports
41	Raw hides and skins (other than fur skins) and leather	818,000	37,181,000
42	Articles of leather; saddlery and harness; articles of animal gut (other than silk-worn gut)	53,743,000	1,826,000
61	Leather, leather manufactures, NES, and dressed fur skins	3,225,698	69,001

Source: Botswana International Merchandise Trade Statistics (2011)

Geographical distribution of value chain actors

According to the situational Analysis of the Leather Industry in Botswana, 2011, the leather value chain actors in Botswana are mainly concentrated in the Kgalagadi district (27%), Central (12%), North (11%), and Kwaneng (10%) districts. It is recognized, however, that there are more actors in the chain whose distribution has not been captured by this study either because registered entities no longer exist, or have no traceable premises from which they operate. A more representative number of actors are shown in Appendix 1 (detailed value chain map).

Table 2: Distribution of local Leather Value Chain actors

District	Village/Town	Slaughter[3]	Tanning[4]	Hide Collectors[5]	Hide exporters	Manufacturers	Total

[2] Botswana International Merchandise Trade Statistics (2011) http://www.cso.gov.bw/templates/cso/file/File/BIMTS_2011%20ANNUAL_REPORT.pdf (accessed August 22)

[3] There are over 93 slaughter facilities of different sizes and capacities according to interviews with the Department of Animal Production at the Botswana Ministry of Agriculture

[4] The majority of tanning is artisanal/ vegetable with no real commercial tanning currently being practiced. These are over 300 artisan tanners according to interviews with the Department of Animal Production at the Botswana Ministry of Agriculture

[5] There are over 100 hide collectors according to interviews with the Department of Animal Production at the Botswana Ministry of Agriculture. However, only published data is presented here.

District	Village/Town	Slaughter[3]	Tanning[4]	Hide Collectors[5]	Hide exporters	Manufacturers	Total
Southern	Kanye	3	4	4	0	8	
	Total	**3**	**4**	**4**	**0**	**8**	**19**
South East	Lobatse	2	-	1	1	-	
	Gaborone	3	0	0	1	4	
	Ramotswa	0	0	0	1	2	
	Total	**5**	**0**	**1**	**3**	**6**	**15**
Kweneng	Molepolole	4	8	2	1	9	
	Total	**4**	**8**	**2**	**1**	**9**	**24**
Kgatleng	Mochudi	4	0	0	0	4	
	Total	**4**	**0**	**0**	**0**	**4**	**8**
Kgalagadi	Tsabong	7	28	0	0	29	
	Total	**7**	**28**	**0**	**0**	**29**	**64**
Central	Serowe	6	8	4	1	11	
	Total	**6**	**8**	**4**	**1**	**11**	**30**
Ngami	Maun	1	6	0	1	15	
	Total	**1**	**6**	**0**	**1**	**15**	**23**
North	Francistown	2	1	2	2	6	
	Selibe-Phikwe	6	0	1	0	0	
	Masunga	1	2	1	0	2	
	Total	**9**	**3**	**4**	**2**	**8**	**26**
Ghansi	Ghansi	3	8	0	0	9	
	Total	**3**	**8**	**0**	**0**	**9**	**20**
GRAND TOTAL		**42**	**65**	**15**	**8**	**99**	**229**

Government Policy

The Government of Botswana has designated the Leather Sector as one of its priority areas for development under the Economic Diversification Drive (EDD) contributing to manufacturing and economic diversification. Today MTI, LEA and BMC are the major actors providing development in the Leather sector. Other Government initiatives are as follows:

Government Initiatives in the Leather Sector

Through a programme focused on the development of the leather sector, several interventions through the LEA have been established. The LEA was created through a mandate from the Small Business Act of 2004 to provide services which include intervention technology and market access. LEA has 13 branches and 4 incubators to fast track the development and growth of priority sectors including leather.

Government is investing in the value chain and promoting investment in this sector.

- Botswana has also established the Citizen Entrepreneurial Development Agency (CEDA) that provides a holistic approach to the development and promotion of viable sustainable citizen-owned enterprises. This is done through the provision of financial assistance in the form of loans at subsidized interest rates, and back up business training and mentoring services to enhance the sustainability of these enterprises.

- A Venture Capital Fund has also been established that is intended to facilitate funding of projects that could be both local and foreign owned. The CEDA Venture Capital Fund (CEDA-VCF) provides risk capital to financially viable start-ups, expanding businesses owned by citizens and joint ventures between citizens and foreigners in all sectors of the economy. The CEDA-VCF helps to relieve the equity capital constraint, which affects most citizen investors.

There is also Botswana Development Corporation (BDC) owned by Government that loans citizen and foreign-owned entities funds over P5 million and/or provides premises, in order to develop companies so that they can increase local skills development and local employment.

Domestic Control Regimes

Licences are required for all exports, including other SACU members, for food security, sanitary and phytosanitary and statistical reasons, as well as under international conventions to which Botswana is a signatory. Under the Control of Livestock Industry Act of 1941 (as amended), exports of livestock and animal products are subject to a permit issued by the Director of the Veterinary Service.

The domestic regime governing the trade in hides and skins in Botswana is provided by:

- Botswana Agricultural Marketing Board Act, 1974 (CAP 74:06);
- Branding of Cattle Act (CAP 36:02);
- Branding (Amendment) Regulations, 2004;
- Livestock and Meat Industries Act (CAP 36:03);
- Grading of carcasses (Amendment) Regulations, 2004;
- Hides and Skins Export Act (CAP 49:01)
- Hides and Skins (Amendment), Regulations, 2004 and;
- Disease of Animal Act CAP 37:01

Business Support Services

The Local Enterprise Authority (LEA) is coordinating development of the leather sector and has developed a "High-Level Strategy for the Development of the Leather Industry in Botswana". The following were seen as potential business opportunities in the leather sector value chain:

1. Establishment of slaughter facilities in specific areas to address the quality of hides and skins
2. Establishment of wet blue tannery to support the retaining and finishing plants
3. Hides and Skins improvement in the country to address low collection
4. Leather shoe manufacturing to reduce the import bill
5. Leather craft manufacturing factory to penetrate the tourist market.

The LEA Strategy noted different failed attempts to develop the leather industry. It recognises, however, an opportunity for this sector based on growing global demand for leather and the successful beef industry in Botswana, which is the major source of hides and skins. It also notes that hides and skins are still viewed as by-products of the meat industry instead of raw material for the leather industry.

The situation analysis by LEA concludes that the reasons for past failures were: fragmented development and the absence of crucial components in the value chain such as effluent treatment plants. Follow-up work by LEA through external experts concluded that the development of the leather sector value chain in Botswana requires a comprehensive and holistic approach, with the establishment of the leather sector industrial park central to resuscitating both raw material value addition and product supply chains.

Financing

CEDA offers long term loans to citizens for bankable projects at 5% per annum, much lower than commercial rates. However, having seen so many failed projects in the leather sector, CEDA has a very low appetite for risk in this sector. The Commercial Banking sector has a much higher interest rate (in double digits), is more risk averse, and tends to be much less attractive for the manufacturing sector. Commercial Banks also cite poor repayment of debt on most medium- to long-term loans. Therefore, previous experience of high NPL (non-performing loan) rates makes access to finance for leather processing extremely challenging.

Business Services and Business Membership Organisations

There is no Business Membership Organisation(BMO) focusing on representing and developing the leather sector in Botswana. With the current level of activity it was not possible to assess the needed business development services as these are normally demand-driven.

BMOs are essential not only for advocating an enabling environment but also in providing market information, business support, training and in mobilising this support at lower/negotiated rates directly by themselves or through other service providers. Where BMOs are strong they can also facilitate a reduction in the cost of services and other business inputs through economies of scale.

Research and Development (R&D) and Technology

There is currently no evidence of R&D supporting the leather value chain that could provide improved technology, training and how best to meet the requirements of local and international markets.

A complete list of all Ministries and Government Agencies who directly or indirectly impact the Sector is included at Appendix 3.

The Leather Value Chain

Overview

In order to plan and survey the value chain in any sector, and then develop upgrading and expansion strategies, it is first necessary to understand the value chains itself. The "theoretical" value chain for the leather sector can be divided into three core sub-sectors as shown in Figure 1:

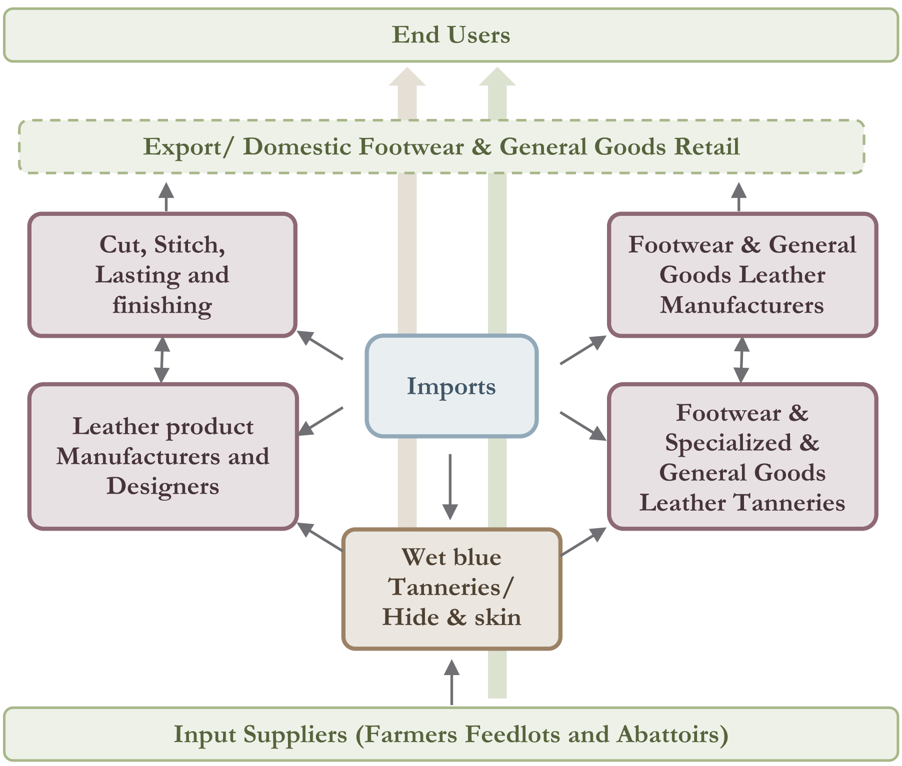
- raw hides and skins production, collection and commercialization;
- tanning and leather finishing;
- leather products manufacture, consisting of:
  - manufacturing of footwear;
  - manufacturing of other leather products.

The value chain for leather is described in the following sections providing inputs for each of the stages of production listed above plus equipment needs.

Inputs to semi-finished and finished leather:

- bactericides, sodium sulphide, sodium hydrosulphide, wetting agents, slaked lime, caustic soda, sodium carbonate, enzymes, ammonium chloride and sulphate, organic acids, sodium chloride, sulphuric acid, formic acid, organic solvents, chromium salts, sodium bicarbonate, vegetable tans, glutaraldehyde, sodium formate, organic tannins, dyes, fat liquors and finishing agents (pigments, resins, dyes, auxiliaries).
- Some chemicals, such as common salt, lime and sulphuric acid can be procured from local market.

Figure 1: Leather Value Chain



Footwear auxiliaries:

- textile and synthetic upper and lining materials;
- leather, PVC, rubber, soles, heels;
- leather, cellulose, leather board, insoles;
- toe puffs, shanks, stiffeners/counters, adhesives, and other components;
- auxiliaries (e.g. threads, nails, reinforcing tapes, laces, buckles, decorations, zip-fasteners);
- adhesives, polishes, etc. finishing chemicals;
- shoe lasts, moulds, cutting dies, hand and machine tools;
- packaging materials and accessories;

Leather goods auxiliaries:

- locks, zips, buckles, frames, fasteners, rivets, lining materials, etc.;

Production equipment:

- tannery machinery (e.g. wooden drums, fleshing and splitting machines, drying units, shaving and finishing equipment);
- equipment for leather products manufacturing (e.g. clicking presses, sewing machines, equipment for lasting, making and finishing of footwear);
- work handling and storage equipment for a factory configuration (e.g. racks, work transporters).

These inputs are important factors for production and quality and contribute to costs in value addition.

Leather Value Chain Analysis

Survey Approach

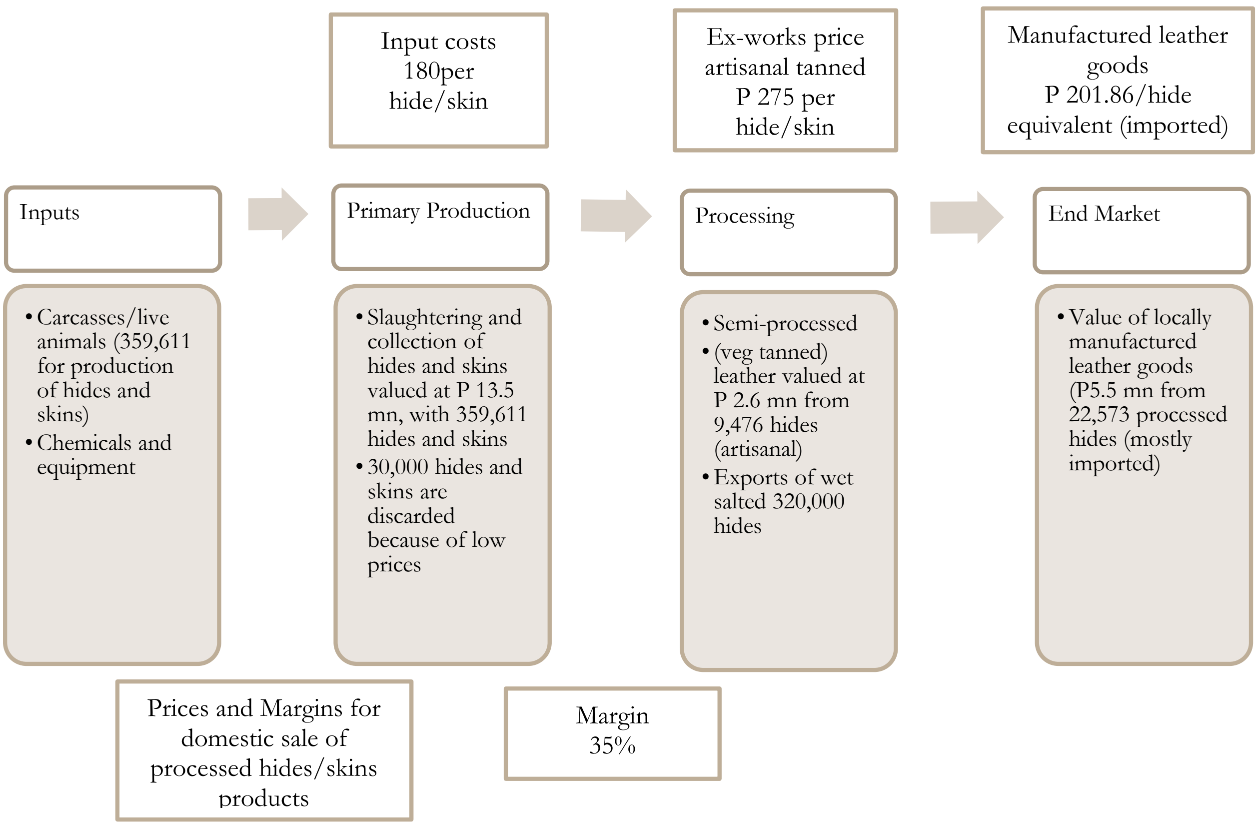
This survey covered those companies that meet the PSDP definition of SME.The total number of actors surveyed comprised: 25 manufactures, 4 abattoirs, 1 importer of finished leather and equipment and 3 exporters. Consultations were also undertaken with the Ministry of Agriculture, Ministry ofTrade and Industry and LEA.

Necessarily, many assumptions have had to be made. In every case, the most conservative estimates have been applied so as not to misrepresent the data and information collected from different sources.

The Botswana Leather Value Chain

The leather value chain for Botswana has been mapped and is detailed in Appendix 1 and summarised below:

Figure 2: Summary Value Chain Analysis



The leather value chain in Botswana involves the collection of 359,611 hides/skins, the majority of which, (320,135) are exported as wet salted hides. There is no commercial tanning industry in Botswana at present. Finished leather is imported from South Africa and Pakistan. By comparison, Ethiopia (which is the 8th largest exporter of leather and leather goods) collects 19.8 million hides/skins. Of course Ethiopia[6] has 2.8 times the GDP of Botswana, 45 times larger population and 1.9 times the geographic area. Livestock population, as opposed to GDP is a better parameter for comparison as this provides an opportunity to compare like with like. In Ethiopia, the cattle population is 52 million and small-stock 53 million, which compares with the cattle population in Botswana[7] (2009) of 2.5 million and small stock livestock population (2008) of 1.7 million.

A total of 1,259 persons are employed in the hides/skins and leather sector in Botswana which compares to 11,915 in Ethiopia.[8] Even though hide/skin collections in Ethiopia is 86 times larger, employment is only 10 times that of Botswana. In Botswana only 2.6% of hides/skins are processed into final products. With this low level of leather utilisation in manufacturing, the share of employment is only 14% (or 185) of total employment in the sector. Only Slaughter facilities for the leather sector employ more people and, these have dual functions (meat and hides/skins), but account for 57% of employment. By comparison, in Ethiopia, 6,515 (or 55%) are employed in manufacturing.

Table 3: Employment in the Leather Value Chain in Botswana

	Slaughter Facilities	Artisanal Tanneries	Hide Collectors	Wet Salt Exporters	Manufacturing	TOTAL
Employment	729	80	198	67	185	1259
Estimated total turnover of sector	mixed use	P 2.6 m	P13.5 m	P175 m	P 5.5 m	
Earnings per employee	na	P52,000	P 118,686	P 2.6 m	P 35,385	

Wages at the hide collection stage average P 1,650 per month for supervisors and can be as low as 800 for daily employees. Permanent employees at the hide exporter level earn much higher incomes.

However, the earnings per employee (not wages but the average contribution of each employee to company turnover), which indicates the contribution (and potential contribution) of the "value chain stage" to the economy, is relatively low in manufacturing at only P 35,000 per annum

6 According to World Bank Database: GDP Botswana $ 14.8 bn, Ethiopia $41.6; Population 2.021 mn, Ethiopia 91.7 m; Area Botswana 600,370 km2, Ethiopia 1,127,127 km2

7(LEA 2011).

8 UNIDO 2012

Key Observations:

- Given the relative size of cattle/small stock numbers between Ethiopia and Botswana (52 million compared to 2.5 million with hide treatment at 19.8 million and 350,000 respectively) it can be seen that hide utilisation from livestock is far lower in Botswana than Ethiopia where 19% of total stock is collected as hides/skins annually compared with only 8.6% in Botswana. If however, utilisation could increase to 19%, collection of skins would amount to 798,000, increasing the value of semi processed leather by 2.2 times to P85mn (compared to P38.5 mn now). Therefore, there would appear to be capacity to increase semi-processing of hides/skins in Botswana, assuming they can be produced competitively.
- Moreover, there is a relatively low level of manufacturing in Botswana with less than 2% of hides and skins processed in leather goods. This is reflected in the relatively low levels of employment in manufacturing of 11% compared with over 50% in Ethiopia. Raising manufacturing levels may increase employment in Botswana but given the low level of earning per employee, it may not be the best economic strategy.

Inputs

Inputs to the leather sector comprise culled livestock, chemicals, equipment and accessories for leather goods manufacturing. In general, inputs for artisan and vegetable tanning materials in the leather sector in Botswana are obtained locally (82%) but chemicals are mainly imported from South Africa. The main accessories in leather manufacturing such as buckles, rubber shoe soles, glue or contact adhesive and zips are also obtained locally. Also imported from South Africa is equipment used by slaughter facilities, hide collectors, hide exporters, tanners and manufacturers.

For exported wet salted hides:

Commercial tanning for the production of wet blue hides was discontinued in 2006. As the only form of processing established during the survey was for mechanical preservation of hides, the only inputs for production of wet salted hides for export are coarse salt (imported or local), chemical imports from South Africa such as Busan 1046 (preservative), Boric acid and sodium meta sulphide.

Artisanal Tanning (Vegetable):

The common vegetable tanning agents in the villages are motitsane (*elephantina elephantorrhiza*) and mogonono (*terminalia cericea*). These can be used in combination or alone. Salts and other, vegetable tans (Mothakola, mohudiri, Morula, mimosa, Tsaodi, mochala, motswere, mokgwenene, mokabi and mopane), dyes, fat liquors and finishing agents (pigments, resins, dyes, auxiliaries) are also used. Common saltis procured from local markets in Botswana. Goat and sheep skins are the most common small stock tanned using vegetable agents.

For Manufacturing:

Semi-finished and finished leather footwear auxiliaries: leather puncher, dividers, drilling machines, awls, cellulose, leather board, insoles. Cutting board; auxiliaries (e.g. threads, beads, rubber shoe soles, nails, reinforcing tapes, laces, buckles, decoration tools, brushes, hammer, sand paper, skiving machine, stitch makers, zip-fasteners); glue/ contact adhesives, polishes, etc. finishing chemicals; tri legged lasts, moulds, cutting dies, hand and machine tools; packaging materials, measuring tape and accessories (Locks, zips, buckles, frames, fasteners, rivets, lining materials, etc). Finished leather is imported from South Africa and Pakistan.

Production equipment:

Tannery machinery (e.g. wooden drums, fleshing and splitting machines, drying units, shaving and finishing equipment); equipment for leather products manufacturing (e.g. clicking presses, sewing machines, equipment for lasting, making and finishing of footwear); equipment for slaughter facilities (dehyders, chain blocks, flaying knives, hoits); equipment for hide collectors (spade/shovel) salt, brushes, fleshing knives, industrial gloves, canvas.

Key Observations:

- High cost for recapitalization has been cited as an issue. For example, at BMC, tanning has been stopped with only hide preservation being practiced. Competition from imports of finished leather at non-competitive prices limits the expansion of manufactured leather and leather products. One of the constraints identified is the low capacity in human capital to effectively market locally produced leather and leather goods at competitive prices. The quality of some of the products produced meet internationally accepted standards for quality consumer preference and taste. However, high production costs are limiting competitiveness for such products.
- Information on production input costs such as materials, labour, electricity and transport was not readily available or provided. Where this information was provided, for example, at hide collection level, it cannot be representative of the industry because of geographical distribution of hide collectors and accessibility to comparative services for transportation of preserved hides produced for the export market or channel. The quality of hides and skins is reasonably good for product differentiation that enterprises in Botswana focus on (shoes, belts, luxury bags and leather accessories). Utilization of the national stock for the production of leather and leather goods is however low and can be improved if a number of incentives were put in place.
- Inputs for vegetable tanning are readily available locally, including the fact that products manufactured at the micro level are clothing, blankets, shoes, traditional dress material and saddles, this segment (however low it is in terms of skin recovery and utilization) plays an important role in providing for household income and can contribute to poverty reduction.

Primary Production (slaughtering and collection of hides)

Livestock slaughtering facilities are important for improving the quality of hides. Most hides and skins are of poor quality. One of the contributory factors is the poor livestock slaughtering environment. Botswana has a total of 93 livestock slaughtering facilities composed of 3 owned by Botswana Meat Commission (BMC), 6 slaughter facilities owned by Municipal abattoirs and slaughters, and 84 private slaughter facilities. More than 10,000 small stock animals were slaughtered in municipal abattoirs in 2008. However, due the ease with which small stock can be slaughtered at home, more small stock animals are home slaughtered than at the different slaughter facilities. Most of the small stock skins for animals slaughtered at homes go to waste because they are difficult to collect from these numerous locations. There is a need to increase the number and capacity of slaughter facilities while restricting home slaughtering in order to ensure that the skins from small stock enter the formal skins and hides markets.

The total value of raw hides/skins in Botswana is estimated at P23.5 million. There are 3 integrated slaughtering and processing facilities, collecting 200,000 hides/skins and employing 20. Six Municipal Abattoirs slaughter and collect 30,000 hides/skins and employ 101 persons and private abattoirs are estimated to gather 80,516 hides/skins and employ 608 persons. These include slaughter slabs around the country which provide for 2-3 hide recoveries per day on average.

Table 4: Primary Production Phase

	Integrated processing facilities	Municipal Abattoirs	Private Slaughter facilities
No	3	6	84
Average slaughtering pa	200,000	30,000	80,000
Average number of employees	17	15	5
Output (hides/skins) per employee	3,921	333	190

Key Observations:

- Livestock slaughtering facilities are important for the quality of hides/skins. However due to the size and ease with which small stock can be slaughtered at home, more small stock animals are slaughtered at homes in Botswana than at slaughter facilities. Most of the small stock skins for animals slaughtered at homes go to waste because they are difficult to collect from the numerous home slaughter areas. There could be a need to increase the number and capacity of slaughter facilities, and or price of slaughtering, while restricting home slaughtering in order to increase the utilisation of stock.
- Hide and skin recovery faces high competition with an estimated 3 months to fill a container by hide collectors directly or through established exporters exporting to South Africa. Some of the challenges presented include the high price of hides which range between P120 -180 per hide. For export container loads of wet salted hides can weigh between 21-35 MT with rail transport averaging P36,000. The seasonal variations attributed to available stock from slaughter facilities, butcheries and individual farmers mean storage costs can increase considerably reducing the competitiveness of the sector. Collection of hides is not consistent in some areas because prices paid to farmers are low especially because of the competition from middle men who sell directly to exporters. Increasing the price paid to farmers could encourage hide recovery as current pricing structures provide little incentive for farmers to sell their skins and hides.
- A key issue raised by local hide collectors and exporters is the difficulty in access to hides. BMC preserves hides recovered from its slaughter facilities. These wet salted hides are sold by public tender to a single bidder every two years. The current contractor exports 100% of these preserved hides. Given BMCs dominance in national hide recovery, the established hide collectors interviewed stated they are unable to grow their businesses without access to raw hides produced by BMC because there is an insufficient volumes of hides available on the open market. Local collectors benefit only when they are contracted to provide preservation services i.e. salting, at P1.12/kg.

Processing of Hides and Skins

The majority of processing in Botswana can be considered semi-processing rather than production of finished leather. Semi processing involves soaking,[9]pickling[10] and wet blue[11] production. However, no wet blue production takes place in Botswana currently. All hides exported are wet salted with no further value addition. The remaining production of 9,470 hides and skins are processed and finished by artisanal tanneries for sale domestically.

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[9] Soaking is done to allow the hides and skins to re-absorb any water which might have been lost during fraying and curing and also to clean the hides and skins. Processing vessels such as drums, pits, mixers are used for soaking of hides and skins.

[10] Pickled leather are hides and skins that are chemically treated, first by alkaline chemicals, and then by acids and common salts. This is undertaken to prepare the hides and skins to allow for tanning agents to penetrate.

[11] Wet blue leather is raw animal hide that has undergone initial chromium tanning process of pickled leather. Wet blue is the raw material for production of crust leather - finished leather.

Table 5: Processing Phase

	Exporters of Raw Hides/Skins	Hide Preservation	Artisanal Tanneries
No	9	3	300
Average Production (mn t)	2,763	4,600	218
Average t/o	P3,991,150	P58,190,000	P8,720
Average number of employees	10	20	1
Annual wages	P180,000	P19,800	P9,600
Average selling price/kg	P14	P12	P40

The difference in pricing across the 3 processors reflects the level of processing and therefore, value added by each type of semi processor; raw hides and skins (sorting and grading only) attracting the lowest price as well as lowest earnings per employee.

Figure 3: Value chain – Wet salted hides

Hide recovery
Raw hide price: P7.82/kg

Input costs per kg	P
Labour:	2.34
Transport:	1.02
Rent:	1.04
Diesel:	0.03
Salt procurement	1.13
Total per kg:	5.56
Margin:	29%

Exporter selling price:
P12/kg

Input costs per kg	P
Raw Hide Price	7.82
Labour:	0.47
Chemical inputs :	0.42
Electricity:	0.31
Transport:	1.31
Total per kg: 10.33	
Margin:	14%

Market Price
Import price of competition (Botswana does not import any wet salted hides)

Constraints

- Lack of consistent supply of raw hides
- Lack of capitalization and reinvestment
- Lack of business management skills
- Lack of technology advancement
- High competition among collectors

Constraints

- Existence of a monopoly of hide supply
- Lack of capitalization and reinvestment
- Lack of business management skills
- Lack of technology advancement
- High competition
- Lack of value addition

Key Observations:

- Raw hides/skins are the lowest value product in the value chain with low price associated with low value added and earnings per employee. Therefore, economically this provides little benefit to Botswana. Therefore, Botswana could consider restricting/controlling the export of raw hides/skins to ensure onward processing. This policy is adopted in many countries including Ethiopia, assuming there is onward production capacity within the country. If all exported raw hides/skins were produced to wet blue, then exports of wet blue would increase by P22.8 million (120,135 hides/skins multiplied by wet blue ex works price of P190). This compares to existing exports, including raw hides/skins of only P21.7 - this means exports by value would more than double as a result of processing raw product currently exported.

- There is no commercial finishing of leather in Botswana, only artisanal. Botswana has 300 artisans who operate at an individual SME level, compared with only 26 in Ethiopia. Although it is assumed that Botswana has 3 commercial tanneries undertaking semi processing, these do not process any leather. The main activity is preservation of raw hides with no further value addition before export as wet salted hides. By comparison, Ethiopia has 26 producing finished leather. To ensure maximum value added, Ethiopia banned the export of wet blue leather in December, 2011 and imposed a 150 per cent tax on the export of crusted leather in April, 2012/1312. Such a policy could not work in the same way in Botswana until it develops capacity for finishing. Alternatives could include an export tax or quantitative limit fixed on existing export volumes of wet salted (to maintain existing trade) progressively reducing this quantitative ceiling in line with national processing capacity.

Manufacturing of leather products

Footwear and leather products produced in Botswana include belts, ladies bags, book covers and passports, men's and women's wallets, hand bags, conference bags, folders, and cell phone bags. There are 50 manufacturers employing185 persons and manufacturing from a total of 22,573 hides/skins, of which of 58% are imported and 42% (9,476) domestically produced by artisanal tanneries. The value of finished products is P 5.5 million.

Table 6: Manufacturing Phase

	Leather Good Manufacturers
No	50
Average Production	451 hides/skins
Average t/o	P 111,134
Average number of employees	4
Earnings per employee	P 22,784
Average selling price	P 202 /hide or skin equivalent

[12] Leather paper final draft (n.d.)

Figure 4: Value chain – Leather goods (handbag)

Imported Leather

Input costs per square meter

Total per/m2: P400

→

Domestic selling price: *P800*

Input costs per item

Equipment	100
Labour	160
Transport:	71
Electricity	20
Rent	88
Marketing	180

→

Market Price

(No Import duties for finished leather are charged as it is regarded as raw material for the manufacture of other goods)

Constraints

- Lack of locally produced finished leather
- Very low local sales of finished leather

Constraints

- Lack of marketing skills for competitive products
- Lack of business planning and management skills
- Very low sales of products manufactured
- Lack of knowledge on operating equipment and machinery
- Trade shows have not met the expected benefits to increase sales for locally produced leather products

Key Observations:

- The leather industry in Botswana is struggling to survive with limited market driven opportunities for growth with a large number of enterprises being at micro level. The focus for most of these enterprises is similar. The main products being shoes, garments, belts and hand bags. There is no indication of the manufacture of other by-products such as glue and gum. Creating industries with a different product differentiation would likely introduce some competitiveness and growth for manufacturing or value addition. A number of actors are no longer operational in key segments of the value chain including manufacturing. This may be attributed to low demand of locally produced goods to stimulate growth among existing firms and or over-ambitious business plans for enterprises looking at inputs rather than market as the driver of success;

- It is clear that although there are a number of training activities provided to actors in the chain, there is very little improvement apparent in the level of enterprise management or profitability.

- Largely because the current structure of the sector leaves little opportunity for value addition there is, currently, little demand for finance to develop final goods manufacturing. This is not the case at the leather collection and processing stage, however, where long lead-times are required to accumulate sufficient skins for export and to build up working capital requirements for potential exporters. It has been noted, however, that limited skills to manage a successful business that responds to, and is motivated by market dynamics/principles are apparent.

Leather Value Chain Benchmarking

The benchmarking parameters have been identified from the value chain mapping exercise for the leather industry which was conducted in October 2014 by the Survey Team. The selected parameters for Botswana have been benchmarked against Ethiopia. The Ethiopia leather industry was selected for benchmarking of Botswana because Ethiopia is one of the top ten livestock population ranking countries in the world and top 3 ranking livestock populations countries in Africa. The country has 52 million cattle, 27 million sheep and 22.9 million goats which provides a good source for hides and skins which are important raw materials for the leather industry.

Ethiopia was also selected because it is a fourth largest exporter of raw hides, skins and leather. Almost all of Ethiopia's exports are finished leather (USAID AGP, 2013). In addition, Ethiopia is an African country like Botswana with a very similar environment.

The Government of Ethiopia also adopted a benchmarking exercise to upgrade the leather and leather products industry through which the Leather Industry Development Institute entered into a twinning arrangement with the Central Leather Research Institute (CLRI) and the Footwear Design and Development Institute (FDDI) of India for the practical execution of the benchmarking exercises at factory level. Seven tanneries and seven footwear producers were selected by the Government of Ethiopia to implement UNIDO's initial benchmarking study recommendations.

In terms of policy, the Ethiopian Government has put in place several policy incentives to promote and upgrade the leather value chain. Some of the incentives are generally applicable to other industries (customs duty exemptions for capital goods and inputs) but others are specific to the leather industry.

Ethiopian Leather Industry Milestone

1991	The start of economic liberalization
1994	Formation of the Ethiopian Tanners Assoc., 6 members
1998	LLPTI established, Export Promotion Strategy, export value $40.9m
2001	Export Trade Duty Incentive Scheme, export value $77.7m
2002	Industrial Development Strategy makes Leather industry a focus; export value $64.35m
2004	Several incentives in the export processing zone, export value $68.9m
2005	Footwear export to Italian buyers, export value $ 0.5m, total export $67m
2007	ETA renamed ELIA; 47 members, export value $101.4
2008	Introduction of export tax on semi-finished leather, export value, $102.6m
2010	LLPTI , renamed LIDI and empowered in the sector, export value $74.1m
2011/12	150 % tax on the export of crusted leather, total export $112 m

Policy incentives specific to the leather industry include the Government's decision to accord a priority sector status to the Leather and Leather Products Industry (LLPI) in the export promotion strategy of 1998 and in the Industrial Development Strategy (IDS) of 2002. The Government also strongly encourages investment in the leather and leather products industry.[13] It also responded to a lack of proper business premises for retail and production space for over 2,000 leather micro enterprises by offering fully constructed production sites at highly subsidized rental rates. For example the building housing the Ethio-International Footwear Cluster Cooperative Society (EIFCCOS) is occupying at Yeka sub city, in Addis Ababa.

Benchmarking Parameters

The following benchmarking parameters have been proposed for benchmarking the Botswana Leather Industry with Ethiopia Leather Industry: Livestock population (cattle, sheep, goats), Slaughtering facilities, hides collected annually, Legal hides and skin traders, Artisan tanners operating, Hides and Skins Soaking Capacity, Small and microenterprises producing footwear, Large and medium scale

[13]Abebe G. S.FlorianSchaeferbHigh Hopes and Limited Successes: Experimenting With Industrial Polices In The Leather Industry In Ethiopia

manufacturers, Footwear and Leather Goods manufacturers, Footwear and Leather Goods manufactured, Value of Hides & footwear and leather goods, Exports of Leather/hides & skins and Leather Products, Main Export markets, Employment generation, Manufacturing Industry operating capacity (%) FDI investment in the leather and leather products industry, % of rejected skins and hides annually. The next paragraphs provide a description of the selected parameters to the development of the Leather value chain.

Benchmarking Livestock Population

Livestock population is an important parameter because livestock is the main source of hides and skins. Without the livestock, the alternative source is importation of hides and skins. Importation of hides and skins is not a sustainable way for supplying the leather industry because any time the exporters can stop exporting hides and skins to Botswana and that would be the end of the leather industry. Cattle and small stocks (goat and sheep) are the main source of hides and skins for Botswana. The small stock livestock in 2008 was 1.7 million and the population of cattle in 2009 was 2.5 million (LEA 2011).

Benchmarking Livestock slaughtering facilities

Livestock slaughtering facilities are important for improving the quality of hides. Most hides and skins are of poor quality. One of the contributory factors is the poor livestock slaughtering environment. Botswana has a total of 27 livestock slaughtering facilities composed of 3 owned by Botswana Meat Commission (BMC), 6 slaughter facilities owned by Municipal abattoirs and slaughters, and 18 private slaughter facilities. More than 10,000 small stock animals were slaughtered across the municipal abattoir in 2008. However due to the size and ease at which small stock can be slaughtered at home, more small stock animals are home slaughtered than at the different slaughter facilities. Most of the small stock skins for animals slaughtered at homes go to waste because they are difficult to collect from these numerous locations. There is need to increase the number and capacity of slaughter facilities while restricting home slaughtering in order to ensure that the skins from small stock enter the formal skins and hides markets.

Benchmarking Hides and skins collected annually

Botswana annually collects 280,000 skins and hides against 19.8 million in Ethiopia. Of the 50,000 hides and skins collected by Botswana, 9,500 are collected by artisan tanners, 120,100 by Exporters, and 100,000 by large integrated exporters.

Benchmarking Hides and Skin Soaking Capacity

Soaking is done to allow the hides and skins to re-absorb any water which might have been lost during flaying and curing and also to clean the hides and skins. Processing vessels such as drums, pits, mixers are used for soaking of hides and skins. Botswana has 65 artisan tanners against 26 artisan tanners in Ethiopia. Botswana, therefore, has more artisan tanners than Ethiopia. Ethiopia has a hides and skin soaking capacity of 173,000 which is made up of 164,000 sheep and goat skin soaking capacity and 10,000 soaking capacity for cattle hides. The soaking capacity for Botswana is not known.

Benchmarking Pickles and wet blue

Pickled leather is hides and skins that are prepared to allow tanning agents to penetrate by being chemically treated first by alkaline chemicals and then by acids and common salts. Wet blue leather is raw animal hide that has undergone initial chromium tanning process and they are blue in colour. Pickled leather is a raw material for wet-blue leather production and wet blue is in turn used as a raw material for crust leather production.

The Ethiopian Government discourages exports of unfinished leather such as wet blue through the banning exportation of raw hides and skins with the aim of improving domestic value addition in the sector and enhancing supply to the local industry. It banned the export of wet blue leather in December, 2011 and imposed a 150 percent tax on the export of crusted leather in April, 2012[14].

As for Botswana, there is no wet blue production since 2006 because of environmental pollution concerns. As a result of the closure, the industry has lost 13% of its income. It has also lost the potential to provide local enterprises in Botswana with locally produced leather for their manufacturing activities.

Benchmarking Finished Footwear and Leather Products

Footwear and leather products produced in Botswana include belts, ladies bags, cover book and passports, men's and women's wallets, hand bags, conference bags, folders, and cell phone bags. On average, 15-100 belts are made per day, 5 men's hats per day, 10 ladies bags per day, 30 assorted items per day, 20 book covers and passports, 40-60 men's and women's' wallets, 10 conference bags per day, 10-20 folders per day, 30 ladies leather hand bags per day, 20 to 35 sandals of shoes per day, 15 garments per day, and 4 jackets/coats per day.

The above figures of production are per company/firm or manufacturer. It is not known how much of each of the products the leather and leather products industry is producing per day. In addition the average industry cost of production for each leather product produced is not known.

Ethiopia, the benchmarking country, produces 24,000 pairs of shoes per day by both formal and informal shoe manufacturers each produce 12,000 pairs of shoes per day. Though Ethiopia has been used for benchmarking the Botswana footwear industry, the country is also struggling to improve the performance of its leather sector. According to the benchmark implementation plan for the Ethiopian footwear sector of 2009, labour productivity best practice is 16 pairs of shoe/day/person but actual average production of Anbessa, one of the shoe manufacturing companies, is 3 pairs of shoe/day/person; another company called Peacock produces 4 pairs of shoe/day/person[15].

Botswana produces leather handbags. The quantities produced are not known. The leather for making handbags is imported.

Benchmarking Employment generation

A total of 1,259 people are employed in the leather and leather products industry in Botswana, while in Ethiopia the sector employs 12,000. The footwear and leather goods are the largest employers who employ up to 185 people in Botswana and 6,500 in Ethiopia.

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[14] Leather paper final draft (n.d)

[15] T. Cherkos (2011), Performance Analysis and Improvement of Ethiopian Leather Footwear Factories: With Special Reference to Anbessa Shoe S.C. A thesis submitted to school of Graduate Studies of Addis Ababa University in partial fulfilment of the requirements for the Degree of Masters of Science in Mechanical Engineering (Industrial Engineering Stream)

Table 7: Employment in the Leather and Leather Products Industry in Botswana and Ethiopia

Parameter	Unit of Measure	Botswana	Ethiopia
Total Employment	Total no. of people employed	541	11,092
Footwear and Leather Goods	No. of people employed per day	185	4,577 (1)
Artisan Tannery Industry	No. of people employed per day	80	6,515 (2)

Source: Field Consultations, LEA 2011, UNIDO 2012
(1) UNIDO 2012 Page 6
(2) UNIDO 2012 Page 23

Labour Cost of Leather Products Production benchmarking

Comparing Botswana percentage cost of handbag production per m^2 against Ethiopian shoe production, Botswana leather products cost is much lower. Botswana, however, is expensive on non-material production inputs (equipment, transport, electricity, rent, marketing, packaging). The non-material production costs make Botswana leather industry uncompetitive.

Table 8: Benchmarking Leather Products Production Cost

Assembly cost	Botswana (Handbag per m^2) BP		Ethiopia (Shoe) US$	
Cost	Cost BP	% of total cost	Cost US$	% of total cost
Labour	160	**24**	0.37	43.9
Other non-material inputs	499	**77**	0.47	56.1

Source: Cherkos, 2011

Benchmarking shoe production productivity between Ethiopia and Botswana

Botswana shoe manufacturing productivity is quite good, beating Ethiopia. Botswana takes between 1.44 minutes to 73 minutes to produce a pair of sandals/shoes whilst Ethiopia takes 78 minutes.

Table 9: Benchmarking shoe production productivity between Ethiopia with Botswana

Country	Minutes/pair	Total Minutes	Pairs person
Botswana	1.44 to 72	1440	20-1000
Ethiopia	78	510	6.5

Source: Cherkos, 2011

Table 10: Botswana Leather Industry Benchmarked against Ethiopia Leather Industry

Benchmark Parameter	**Unit of Measure**	**Botswana**	**Benchmark Country Ethiopia**
Livestock population (cattle, sheep, goats)	No. of animals ('million)	4.2	102
Slaughtering facilities	No. of slaughtering facilities	93	na
Hides Collected	No. of hides collected ('million)	0.28	19.8
Legal hides and skin traders	No of legal hides and skin traders	109	850
Artisan tanners	No of Artisan Tanners	300	26
Hides and Skins Soaking Capacity	No. of skins and hides soaked per day	0[16]	173,375
Small and microenterprises producing footwear	No. of small &microenterprises producing footwear	50	1,000
Large and medium scale manufacturers	No. of large and medium scale manufacturers	26	114
Footwear and Leather Goods manufacturers	No of manufacturers	50	114
Shoes produced by formal sector	No of pairs of shoes produced per day	0	12,000
Shoes produced by informal sector or Micro and small/medium industries (MSME)	No of pairs of shoes produced per day	1,750	12,000
Footwear and Leather Goods manufactured	No of pieces produced/year ('millions)	0.023	3
Value of Hides & footwear and leather goods	BWP/US$ ('million)	99.67	na
Exports of Leather/hides & skins and Leather Products	BWP/US$ ('million)	94	104
Exporters including Large Integrated Exporters	No of exporters	10	14
Main Export markets	Countries	South Africa	Italy, China, UK, Russia and Hong Kong
Contribution of leather and leather products industry (LLPI) to total exports	%	<1%	4%
Employment	No. of people employed	1,259	119,15
Manufacturing Industry operating capacity (%) tanning, handbag, shoes		20-35	48-65
FDI investment in the leather and leather products industry	No of companies	0	55
% of rejected skins and hides annually		No data available	50% to 60%

Source: Botswana leather industry consultations, UNIDO 2012, USAID 2013, www.luresext.edu/international/LeatherInd.htm

[16] There is no production of wet blue hides in Botswana currently. Only wet salted hides are produced. Previous soaking capacity before production of wet blue was discontinued was1,200 hides and skins per day

In the absence of comprehensive performance data, preliminary indications of the benchmarking analysis show that Botswana industry's overall productivity is poor with the exception of shoe manufacturing productivity. This is one of the major constraints of the leather and leather products industry that challenges its competitiveness in the global market.

Institutional Benchmarks

Benchmarking information alone cannot improve the performance of the industry unless this data is used not only to analyse the information but act upon it. Improving performance in order to make progress towards achieving the benchmarks will require the co-ordination of activities across all actors in the value chain, raw material suppliers and the supporting institutions (both public and private). In the case of the Ethiopia, the Leather and Leather Products Industry (LLPI) and the Leather Industry Development Institute (LIDI) play a major role in the development of the footwear industry as sources of technical and managerial training programmes, which has been critical to the success of the ventures. Subcontracting agreements and joint ventures with producers and direct foreign investment facilitated the entrance of Ethiopian companies into the global footwear market, an approach which is relevant to Botswana.

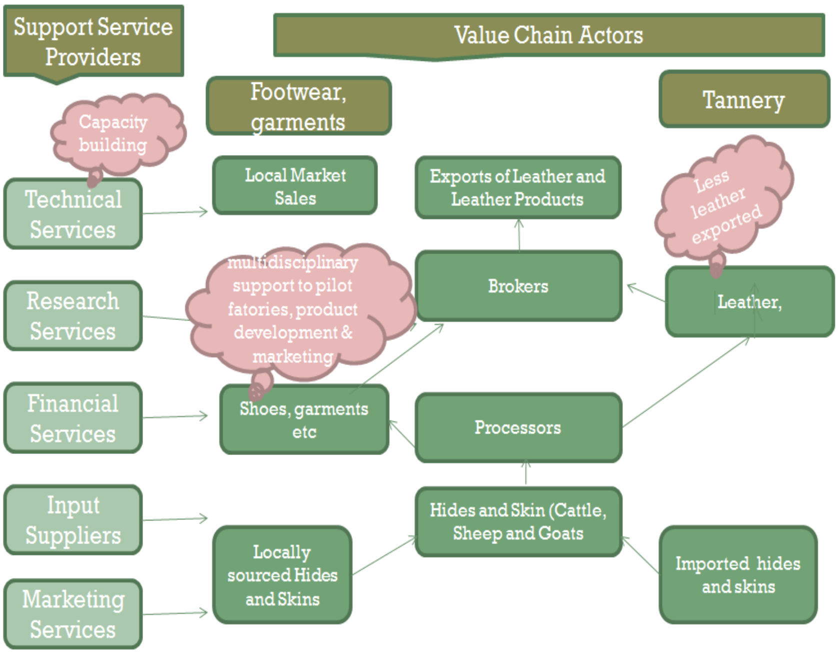
As for Botswana, the Botswana leather exporters are the chain leaders who take the responsibility of undertaking market intelligence, and provide a market for raw hides and skins sold on the domestic market. The domestic market is the main marketing channel with the greatest potential.

Leather Value Chain Upgrading Lessons Learnt from other Countries. Case study: Ethiopian Leather and Leather Products[17]

The Ethiopian LLPI Project was implemented between 2009 and 2012 to upgrade the leather and leather products industry at process, production and institutional levels through implementation of a number of upgrading intervention activities.

[17]UNIDO project number: TE/ETH/08/008www.unido.org/fileadmin/user_media_upgrade/Resources/Evaluation/Ethiopia_leather_evaluation_FINAL_report_130208.pdf

Figure 5: Upgrading of Leather Value Chain, Ethiopia



Upgrading Activities

1. Process upgrading was done in the Shoe Industry through provision of multidisciplinary support to a number of pilot factories and large numbers of Micro- and Small/Medium Enterprises (MSMEs), which make up half of Ethiopia's shoe production.
2. Production upgrading was achieved by the project through providing technical benchmarking, and promotion of innovative tools and methods for supply chain management.
3. Institutional upgrading involved building LIDI's capacity on a continuous basis through several ways, such as assistance to laboratory accreditation which enabled the institute to provide quality tests for the industry which helped in facilitating leather products exports. The project also built capacity at LIDI's Marketing Directorate by transferring skills on how to conduct marketing studies, and provided support to the Communication Directorate by developing the a website.
4. Channel upgrading was done through introduction of new products and quality assurance, creation of exposure to international markets and improving the management and marketing operations of firms. The project facilitated participation of LIDI and selected enterprises in international fairs.
5. Policy upgrading was done through the Government of Ethiopia promoting exportation of finished leather products by imposing a heavy tax on exported unfinished leather. This was done in addition to other different export incentives including income tax exemption, duty free imports of equipment, shortening period of license processing and renewal of permits among others which the Government had already put in place.

Project Upgrading Outcomes:

- Productivity gains in some companies, and increased product collections.
- Increase of leather and leather product exports from US$ 67 million in 2004/05 to US$ 104 million in 2010/11.
- Shift from raw material exports to exports of finished leather, shoes and leather goods.
- Improving finishing techniques.

Key Lessons of success:

- Capacity building during value chain upgrading is important to ensure that the value chain actors become knowledgeable. There is, therefore, a need for good transfer of skills and knowledge from technical experts to local experts
- On-going monitoring, evaluation and project redesigning should form part of the upgrading process because monitoring and evaluation provides lessons which allow for redesigning of the project in order to avoid wasting resources on interventions which were not working. The Ethiopian Leather Industry implemented a pilot activity at one of the shoe factories which tested Enterprise Resource Planning system (ERP) innovation that is widely used in the Italian shoe factories. The outcome demonstrated that the technology was not quite appropriate under local circumstances: hence up-scaling the experience to other companies was not done and the experience helped the project to change strategy.
- Developing financial markets to SMEs would enhance upgrading process and product upgrading. These often require long-term investments for which the majority of the leather industry MSEs might not afford because of requirements for collateral, high interest rates as it is the case in the leather value chain in Ethiopia. Development of financial markets for MSE investment capital would enhance their capacity to respond to and benefit from upgrading opportunities.
- Promotion of horizontal and vertical collaboration among SMEs and large processors can reduce transaction costs and increase profits. The relationship could be a one-off or long term relation as in the Ethiopian leather industry. Some of the informal and SME tannery processors and leather products manufacturers were being contracted for certain processes in the leather industry by large-scale operators. The effect was reduced cost of production by large processors and increased market to the SMEs which brought in more income and profits.

Leather Industry Good Practices

UNIDO 2005, Leather and Leather Products Industry Panel defines good practice as being almost the same as a benchmark which could be quantified, but for purposes of this study soft data will be used to define a good practice.

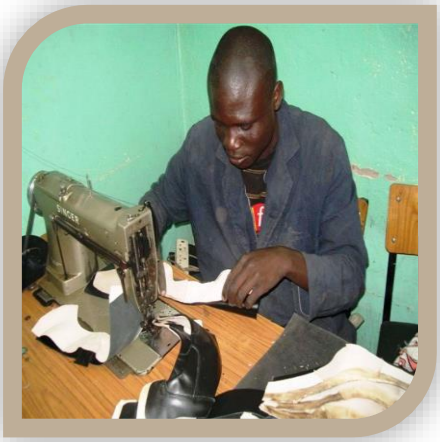
Leather Products Quality Assurance

It is important to develop quality assurance throughout the leather value chain because quality is the most important market requirement for not only accessing new markets but also maintaining a good reputation with customers. Some of the practises that ensure production of quality leather products along the value chain include: use of quality input materials, developing systems at company and sector level to assess customer rejected products so as to better understand the issues and problems. The creation of an independent inspectorate for leather products to carry out pre-shipment inspections based on customer requirements.

Eastern and Southern Africa Leather Industries Association (ESALIA) which comprises Ethiopia, Kenya, Tanzania and Zambia concentrates on improving export performance through upgrading quality and provides members with a range of export oriented services to help its members.

Recommendations

Summary of Findings



It is clear that there is no leather production of a significant nature in Botswana. Domestic demand of leather for manufacturing is low because of a small manufacturing base. Most manufacturing is based on imports of finished leather from South Africa and Pakistan to produce leather goods in the form of shoes and other articles such as hand bags, garments and belts.

A need to recapitalize the industry was expressed by some actors interviewed. In 2006, the production of wet blue hides was discontinued because of concerns for environmental pollution. There is also the potential to provide local enterprises with locally produced leather for the manufacture of leather and leather goods, because currently there is little or no value addition activities.

Leather exporters in Botswana are the chain leaders who take the responsibility for undertaking market intelligence, and provide a market for raw hides and skins sold on the domestic market. It is the marketing channel with the greatest potential and one that has the largest possible market. The following suggested Strategy is based on the detailed analysis of Botswana's Leather Industry carried out during this Study and the lessons drawn from the Ethiopian Leather Industry Benchmarking exercise where specific policy initiatives have brought about the desired result.

It is clear that there is potential for Botswana to increase the number of hides and skins utilised from slaughtered animals. However, with little value added from raw product export and simple preservation (wet salted) the potential lies in production of semi and finished leather such as wet blue, crusted and finished leather. There is no evidence that leather products and accessories production in Botswana has any competitive advantage beyond the types of specific domestic oriented business.

Strategic target for leather value chain upgrading in Botswana:

The strategic target for upgrading the leather value chain in Botswana is to increase the annual hide/skin recovery rate from 9% to 19% of herd size and at the same time, increase processing (commercial and artisanal) from 3 to over 50% of skins within 5 years.

The majority of the processing will be generated from commercial processing and exporting of (initially) wet blue. Based on an estimated hide/skin recovery of 780,000 based on 19% (see Ethiopian hide recovery figure) of 2.5 + 1.6 million herd with current exports of raw hides of 30,000 and wet salt exports of 320,000 maintained, as well as artisanal tanning of 10,000 hides/skins, the available hides/skins for wet blue would be 420,000. The total value of hides/skins and processed leather would rise from P103 million to P286 million. This is a conservative estimate.

Table 11: Value Target for Developing the Leather value Chain

	Current value P	Target value
Wet Salt preserved Hides and Skins (#320,000 x P 322)	103 m	103 m
Artisanal Tanning (10,000 x P275)	2.75 m	2.75 m
Production of Wet Blue	none	181 m
Total Value of Sector	105.75	286.75 m

In order to achieve this target, a number of strategic goals are proposed:

- ➔ *Organisation of the sector (including production and marketing)*
- ➔ *Facilitate the increase collection of hides/skins*
- ➔ *Encourage competitive processing of hides/skins*
- ➔ *Support development of leather goods manufacturing sector*

We recognise that a wet blue industry previously existed in Botswana and died out. The planned development of a waste treatment plant to address initial environmental concerns is likely to introduce reinvestment and contribute to the necessary environment for Botswana to compete favourably.

Strategic Goal 1: Organisation of the Sector

The specific Objective of strategic goal 1 is:

To bring together a broad range of stakeholders in the leather sector to represent and promote its interests

Activities to Achieve this Goal will include:

1. *Establish Effective Leather Processing Institution or Trade Association:* The absence of a dedicated industry representative has been identified as a major constraint to the development of the sector which has no industry lobby, no marketing support and no technical and skills development function. Benchmarking against Ethiopia shows that the creation of the National Leather Institute (LIDI) acted as the conduit for leather sector upgrading. Therefore, it is recommended that a similar organisation is established for Botswana comprising both public and private sector. Given the leather sector is a priority for the Government, initial funding can be provided with private sector funding (membership based) developing over time.
2. *Development of a Quality Assurance and Certification Programme:* Quality has been shown to be an important determinant of the success of the Ethiopian leather industry and although quality of existing production has been considered largely acceptable (except in the case of small stock skin recovery), it is important that the quality is not only maintained, but raised in order to develop a viable sector. It should also be noted that issues of low quality hides have been cited in previous studies (LEA 2011) as an issue throughout the leather value chain.Hence, a programme of quality assurance and certification for both grades and quality in Botswana could help develop the sector, not only in pricing (high prices) but in efficiency (studies in US show adoption of quality assurance programmes can improve productivity by 20% across industries). It is important that a nationally accredited body undertakes this certification and

must be independent of the industry – hence separate from any industry association. A possible collaborator could be BOBS – the Botswana Bureau of Standards. Ethiopia used its quality assurance programme as part of the value chain upgrading of the leather sector so standards could be adopted based on such a system.

3. *Develop research, technology and vocational training programme:* There is a need for training in the value chain in the use of technologies as identified in the survey. A lack of skills throughout the chain and the absence of any R&D will limit future upgrading of the chain and long term sustainability and competitiveness. Existing institutions should undertake this role for the sector.
4. *Accelerate the Development of the Industrial Leather Park:* The planned leather industrial park and associated facilities is designed as a "cluster" development addressing certain production needs such as waste management. Therefore, it has the potential to act as a catalyst for investment and development of the sector. The proposed association, certification body and research and training programme should be physically located at the Park to further cluster support services to the leather processing industry.

Strategic Goal 2: Facilitate the Increased Collection of Hides/Skins

The specific Objective of strategic goal 2 is:

To encourage the increase in collection and recovery rates of hides/skins in Botswana

Activities to Achieve this Goal will include:

1. *Develop a pricing scheme for farmers:* It is important to develop a pricing regime targeted at exporters to create a market pull for raw hides and skins; this being based on market demand and prices. Exporters can transparently set prices for farmers which can be paid in two instalments, the first one on the basis of indicative world or regional prices, and the second on the basis of actual prices obtained at the final sale. This could likely give an incentive for farmers to provide a more consistent hide recovery which is necessary to increase the volume for collectors and exporters and provide employment to the sector. Such a scheme would necessarily be voluntary, but could form best practice in Botswana.
6. *BMC to develop competitive auctioning of hides/skins:* An auction market in lots of hides/skins could be organised. These should be short 1-year contracts and ensure multiple purchases or raw hides/skins in increase the availability of supply of the major processing input in Botswana.

Strategic Goal 3: Encourage Competitive processing of hides/skins

The specific Objective of strategic goal 3 is:

To encourage the processing and value added of hides/skins in Botswana

Activities to Achieve this Goal will include:

1. *Create an export quota for raw hides and skins and preserved hides/skins (wet salted):* The export of raw and preserved hides/skins which is a relatively easy process discourages onward processing in Botswana. Potential investors will consider security of supply an issue in ensuring a sustainable business proposition. Experience in other countries such as Ethiopia has shown upgrading and processing through the value chain has been achieved through banning exports of raw/preserved/semi processed products. Given that processing will take time to develop, a total ban would be inappropriate. Therefore, an export quota should be established, initially based on current levels of export of raw/preserved hides/skins that could be systematically reduced over time.
2. *Improve access to investment finance for leather processing:* It has been seen that a lack of access to investment finance and the risk adverse behaviours of commercial banks and CEDA (based on previous high NPL rates in the leather processing sector) means that access to investment finance is a real issue in Botswana. Moreover, lessons from leather VC upgrading in Ethiopia show that improvements in financial markets for lending in the leather sector (collateral and high interest rates) are effective in sector development. Therefore, financial programmes for investment in production of wet blue and finished leather should be developed including guarantee schemes (to address collateral), subsidised lending, FDI and joint ventures.
3. *Vertical Integration Along the Leather Value Chain:* Mobilisation of capital within Botswana through vertical integration along the value chain, encourages preserved hides/skins exporters and/or beef farmers/exporters to invest in leather processing. Countries such as Ethiopia have found that highly integrated value chains are able to become more competitive

Strategic Goal 4: Development of the Leather Products Manufacturing Sector

The specific Objective of strategic goal 4 is:

To support the development of a high quality and viable national leather products market

Activities to Achieve this Goal will include:

1. *Increase the number of leather products design and production entrepreneurs:* Existing manufacturers of leather goods often lack skills in design and production which leads consumers to buy imported articles. The development of education programmes from schools through university and technical college will increase the interest and skill sets of future entrepreneurs in leather goods manufacture. This will include design, technology and marketing courses.
2. *Business and marketing skills development:* There is a lack of business skills amongst manufacturers of leather goods. Therefore, upgrading of such skills through training, provision of business advisers and mentoring would help grow the industry.
3. *Showcase/national campaign for locally produced leather products:* Low levels of national consumption and preference for imports limits the scope of growth. Manufacturers state that national trade shows have not worked in promoting product sales. A national campaign to showcase and encourage consumption of nationally produced products should be undertaken.

Actionplan

Supervision, Monitoring and Evaluation

This strategy will require cooperation and actions by a broad range of stakeholders within the public and private sectors. Therefore, there is a real need for a strong supervisory and facilitation role for an apex organisation that can coordinate and oversee implementation. This lead organisation will not only act as the driver of the strategy, but take responsibility for monitoring and evaluation. This will first require undertaking baseline studies of key indicators and publishing progress of the strategy (with appropriate media coverage to support the sector). This is a crucial role and will need to be given appropriate resources to monitor and facilitate implementation in the national interest, and will also need to develop appropriate skills for the task.

Stakeholders discuss, agree and appoint by consensus a lead organisation to drive through this strategy. Options for this role would include:

Ministry of Agriculture

Ministry of Trade and Industry

LEA

BITC

Institutional Arrangements

Implementation of this strategy will be undertaken by a broad range of stakeholders in both the public and private sectors. There are a number of options for implementation and lead agencies/organisations depending upon willingness, commitment and resources. During the initial discussion of this strategy amongst stakeholders, the exact modalities will be discussed and agreed, as well as completion of the Outline Action Plan (below).

Outline Action Plan

The following Action Plan provides an indicative schedule of activities to implement the strategy. The institutions involved in implementation, however, should review and revise the Action Plan on an on-going basis to ensure its accuracy, relevance and reflect the changing dynamics of Botswana as well as the global market.

The Action Plan is a guide to ensure national understanding, acceptance and ownership by stakeholders who will first need to discuss and complete the Outline, assigning Lead Agencies, resources and budgets.

Once these have been agreed, each component of the Action Plan must be elaborated into an individual Work programme. The Action Plan and individual Work Programmes will need to be revised periodically to take account of available resources, changing politics, commitment of the sector, international market dynamics and lessons from previous activities.

Outline Action Plan

Activities	Outputs	Result Indicators	Lead Agency	Duration (start-finish months)	Internal Resources	Other resources (Donor and National Budget)
Overall objective	**Increase value of leather sector from P106 to P287 m**	Increase in collection of hides/skins to 780,000 Production of semi and processed leather of equivalent of 420,000 units				
Strategic Goal 1: Organisation of the sector						
Specific Target	**To bring together a broad range of semi and processors in the leather sector to represent and promote its interests**					
Activity 1.1 Establish Effective Leather Processing Institution or Trade Association						
Task 1.1.1 Feasibility study and corporate plan	1. Articles of association 2. Budget in place 3. Fully staffed and functioning organisation	Provision of effective services to the industry: lobbying, product development, training and marketing support				
Task 1.1.2 Funding Identified						
Task 1.1.3 Membership recruitment						
Task 1.1.4 Staffing						
Task 1.1.5 Twinning with international organisation						
Activity 1.2 Development of a Quality Assurance and Certification Programme						
Task 1.2.1 Identification of QA standards for each phase of the VC	1. Published Standards 2. Certification programme in operation	Certified enterprises throughout the leather VC.				
Task 1.2.2 Identify and Appoint an accreditation body						
Task 1.2.3 Identify certification body						
Task 1.2.4 Develop programme of training and certification (determine if subsidised)						
Activity 1.3: Develop research, technology and vocational training programme						
Task 1.3.1 Identification of existing national institutions	Institutions (research, training and academic) commit establish programmes for the leather	Research is undertaken on leather technologies, improvements and development Vocational training and				
Task 1.3.2 Development of programmes supporting the						

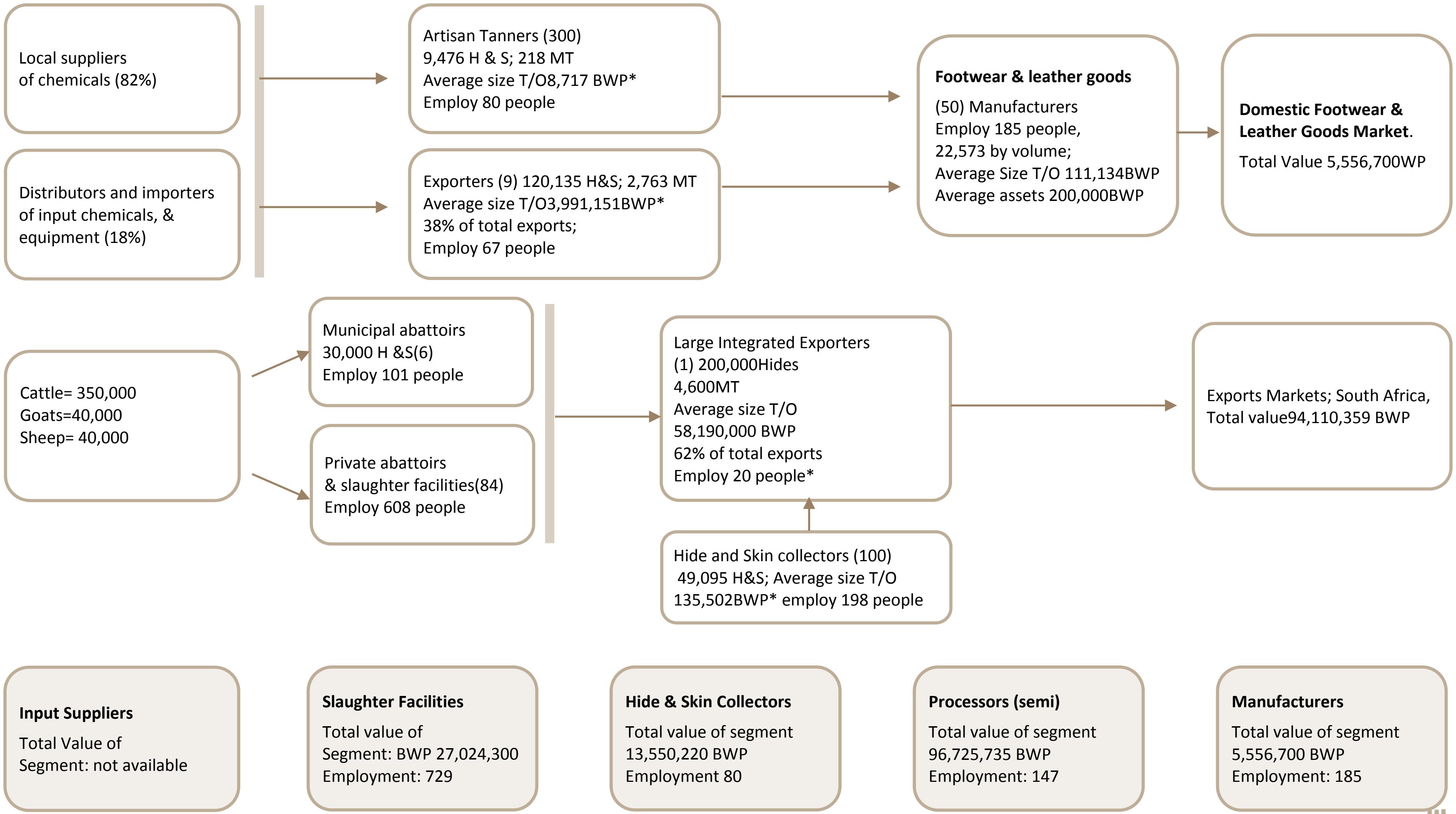
Activities	Outputs	Result Indicators	Lead Agency	Duration (start-finish months)	Internal Resources	Other resources (Donor and National Budget)
leather sector	sector	skills upgrading				
Activity 1.4: Accelerate the Development of the Leather Park:						
Task 1.4.1 Strategy for expediting development of Leather Park	Blockages identified and removed (including finance)	Leather Park in operation.				
Strategic Goal 2: Facilitate the Increase Collection of Hides/Skins						
Specific Target	**To encourage the increase in collection and recovery rates of hides/skins in Botswana**					
Activity 2.1. Develop a pricing scheme for farmers						
Task 2.1.1 Design pricing mechanism and establish managers of the programme	Scheme offering assured prices to 2 payments available for farmers	Farmers and exporters using the pricing mechanism				
Task 2.1.2 Promote programme to exporters and sign up to scheme						
Task 2.1.3 Promote programme to farmers						
Activity 2.2. BMC to develop competitive auctioning of hides/skins						
Task 2.2.1 Design new auction system for use at the end of current contract.	BMC tenders or auctions its hides/skins under the new system	Multiple firms purchase BMC hides/skins, some of which is sold for on-processing in Botswana				
Task 2.2.2 Persuade Government and/or BMC to change its procurement system						
Strategic Goal 3: Encourage Competitive processing of hides/skins						
Specific Target	**To encourage the processing and value added of hides/skins in Botswana**					
Activity 3.1. Create an export quota for raw hides and skins and preserved hides/skins (wet salted) and incentives for processors						
Task 3.1.1 Development of Government green paper for leather sector development including quota and incentives for processors (eg duty free capital and inputs)	Quota system established and in operation.	Exports of raw and preserved hides/skins continue reducing as processing increases.				

Activities	Outputs	Result Indicators	Lead Agency	Duration (start-finish months)	Internal Resources	Other resources (Donor and National Budget)
Task 3.1.2 Development of legal framework for establishing export quota for raw and preserved hides/skins						
Task 3.1.3 Establish mechanism for management of the quota (either licence or first come, first served basis)						
Activity 3.2 Improve access to investment finance for leather processing						
Task 3.2.1 Establishment of financial instruments for investment lending	Government provide loan guarantees and subsidised loans for leather processing FDI promotion undertaken	Increased investment in leather processing.				
Task 3.2.2 Development of projects in the leather sector for JV and FDI promotion						
Activity 3.3 Vertical Integration Along the Leather Value Chain						
Task 3.3.1 Development of business models and materials demonstrating opportunities	Promotional campaign and increased awareness of the business opportunity.	New emerging investors and collaborations for new processing projects.				
Task 3.3.2 Identification of target investors						
Task 3.3.3 Promotion of the benefits and returns in the leather processing sector						
Activity 3.4 Improve Competitiveness						
Task 3.4.1 Conduct a study to determine factors which lead to increased cost of production	Competitiveness programme in operation	Reduction in the production cost of leather products including non-material costs of equipment, transport, electricity, rent, marketing, and packaging.				
Task 3.4.2 Development of interventions and policy incentives						
Task 3.4.3						

Activities	Outputs	Result Indicators	Lead Agency	Duration (start-finish months)	Internal Resources	Other resources (Donor and National Budget)
Prioritise and implement the selected interventions						
Strategic Goal 4: Development of the Leather Products Manufacturing Sector						
Specific Target	**To support the development of a high quality and viable national leather products market**					
Activity 4.1 Increase the cadre of leather products design and production entrepreneurs						
Task 4.1.1 Identification of appropriate education institutes	Schools, technical colleges and universities with courses focused on leather goods design, production and marketing	New businesses established with innovative products/designs				
Task 4.1.2 Development of course outlines and programmes						
Task 4.1.3 Promotion of courses to Students						
Activity 4.2 Business and marketing skills development						
Task 4.2.1 Audit of available business support programmes	Advice, mentoring and training of SMEs in leather goods manufacturing	Improved viability of businesses in leather goods manufacturing sector				
Task 4.2.2 Lobby for inclusion of specific programmes for leather goods sector						
Tasks 4.2.3 Identification of potential candidate SMEs for support						
Activity 4.3 Showcase/national campaign for locally produced leather products						
Task 4.3.1 Development of an awareness strategy	Awareness raising and product exposure (advertising, case studies, expos)	Increased demand for locally produced leather goods.				
Task 4.3.2 Secure financing and implementers						
Task 4.3.3 Implementation of awareness campaign						

Appendices

Appendix 1: Detailed value chain Map



Appendix 2: Directory of Organizations by VC Stage

Input Stage

Slaughter Facilities

Botswana Meat Company, Lobatse
Botswana Meat Company, Francis Town
Botswana Meat Company, Maun
Botswana Ostrich Abattoir, Gaborone
Senn Foods Slaughter House, Gaborone
Jwaneng Municipal Slaughter House, Jwaneng
Meat Inspection Training Centre Abattoir, Lobatse
Gaborone Municipal Abattoir, Gaborone
Serowe Municipal Abattoir, Serowe
SelibePhikwe Municipal Abattoir, SelibePhikwe
Bobonong Municipal Slaughter House, Bobonong
Madimare Municipal Slaughter House, Madimare
Tonota Municipal Slaughter House, Tonota
Tutume Municipal Slaughter House, Tutume
Lethlakane Municipal Slaughter House, Lethlakane

Services

Gaborone Leather Industries Incubator

Processing and Exporters

Hides and Skins Export Botswana, Lobatse
Super Hides Botswana (Pty), Kanye
S M Lurie Co Botswana, Francis Town
Super Hides Botswana (Pty), Kanye
Hides and Skins Export Botswana, Lobatse
Artisan tanners, Tsabong
Laitus Enterprises, Francistown

Manufacturers

Star Tailor & Leather Works Botswana, Mochudi
Shuaka Pty Ltd, Mahalapye
Dilomakwati Leather Work Botswana Pty Ltd, Mochudi
Kgalagadi Games Skin (Pty) Ltd, Gaborone
Kings Leather Works, Lethlakane
Leather Palace, Gaborone
Leather Products Botswana, Mochudi
Retswakai Batswana Traditional Dance Leather Works, Kanye
Seloka Tanning, Molepolole
Dipuo Leather Craft Botswana, Mochudi
Nametso - Montsho, Selebi-Phikwe
Gaolatlhe - Kobe, Selebi-Phikwe
Sputla's leather and rubber works, Francistown
Kennedy Gabatlale N/A Selawe, Maun
Thatayaone Motlokwa, Molepolole
OnkgopotseNgwamotsoko, Tsabong
LANNAK S&D INVESTMENTS (PTY) Ltd, Gaborone
ThutoGoswagang, Serowe
KebalepileMothemele, Tsabong
OwameMoleta, Gaborone
KeababonaMalebogo, Maun
Portia Boitumelo Sekai, Gaborone
NtekeMosarwana, Molepolole
Ethno Graphics (PTY)LTD, Gaborone
KabeloNkabeModise, Ramotswa
TjinyuniBabili, Masunga
ROETANE INVESTMENTS (PTY)LTD, Selebi-Phikwe
The Buff Dun Dotte, FTown Light Industrial Incubator
B.I Interial furniture, Gaborone
Wonderful Land Pty Ltd, FTown Light Industrial Incubator
Oates MoitshepiMoitho, Ghanzi
AdonayInvestments(pty)ltd, Gaborone
UarimbaKahaka, Maun
MajeRapekenene, Francistown
Kali Irations (Pty)Ltd, Molepolole
Dinah Botha, Tsabong
Dimakwati Interiors, Leather Incubator
IvyOmphileMolefakgosi, Tsabong
OganneSeribane, Maun
Soboe, Maun
Israel Nguasena, Ghanzi
Moreri's Leather Products, Leather Incubator
Andes Design Investments, Leather Incubator
Ishmael KelebogileMothibi, Ghanzi
Tshepo Ben, Leather Incubator
Armour Investments, Leather Incubator
Shuaka Leather Works and Tannery, Serowe
Leather Products Botswana, Mochudi
Spes Bona Leatherworks (Pty) Ltd, Ramotswa
Matlo A Mantle Pty, Leather Incubator
AH Designers(Pty)Ltd, Ramotswa
Gadikgale Jane, Leather Incubator
Qiseqy Micro Entreprises (Pty) Ltd, Gaborone
Top Line Game City, Gaborone
Top line Kagiso Centre, Gaborone
Molefe Furs Botswana, Gaborone
Star Tailor & Leather Works Botswana, Mochudi
Shuaka Pty Ltd, Mahalapye
Dilomakwati Leather Work Botswana Pty Ltd, Mochudi
madinaughly tanning and leather works

Importers Of Finished Leather, Upholstery Material, Leather Machines, Tools And Shoe Components

Morongwa Stores

Appendix 3: Agencies Supporting the Development of the Leather Value Chain in Botswana

INSTITUTION	PURPOSE/ MANDATE	Services/effect on Leather Value Chain
MOA	Agric policy, promotion and programmes	Agricultural policy; Extension services; Hides & skins improvement programme; Department of Veterinary Services; Livestock Management & infrastructure development programme (LIMID); Department of Agri-Business promotion; Export, movement, import permits; Leather Strategy (working with LEA)
MTI	Trade & industry policy, promotion & programmes	Private Sector Development Strategy & Programme; Trade Policy, Strategy, Negotiations & Implementation; Economic Diversification Drive; Leather park
LEA	Local Enterprise Authority	SME Development and Support
BITC	Investment & Trade	Special Economic Zones; Investment support; International trade info & facilitation
BMC	Central purchasing, slaughter & international selling of beef	Beef hides & skins; Abattoir for Goats (possibility) Goat hides & skins (possibility)
BEMA	Membership support	Business advocacy; Export training & trade information; Manufacturing support; Local market access
Botswana National Beef Producers Union BNBPU)	Membership support	Networking support for hides, skins, animals (part of the leather & dairy value chain network)

The PSDP is an inititative of the Government of Botswana, represented by the Ministry of Trade and Industry and Ministry of Finance and Development Planning, in partnership with the Euorpean Union

Government of Botswana

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BOTSWANA INVESTMENT & TRADE CENTRE

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