



CONTEXT...

Funded by the World Bank and DFID, the Growth and Employment in States (GEMS) programme aims to increase growth, income and employment, especially for poor men and women, by improving competitiveness in strategically important Nigerian industry sectors in selected states and nationally. Wholly-funded by DFID, the target market for the GEMS1 component is the meat and leather industry.

As in other target markets, GEMS1 uses the Making Markets Work Better for the Poor (M4P) approach targeting sustainable improvements in market outcomes by altering the incentives that the market as a system provides to participants. It addresses major government and market failures in the system thus bringing about systemic change. Improving the incomes of the poor, especially women and the young, is an explicit goal of M4P programmes. The GEMS1 component is being implemented over 5 years (2011-15).

This GEMS 1 Output Fact Sheet summarizes Project support to markets and linkages for **finished leather** for export.

STRATEGY and RATIONALE...

Finished Leather Sub-sector Support Strategy: The overall GEMS1 leather industry strategy compliments target outputs of the Nigerian Leather Industry Transformation Agenda while ensuring high local ownership by the private sector. It is responsive to resolving major industry competitiveness constraints identified by stakeholders while exploiting growth and employment opportunities.

The finished leather sub-sector is one of three intervention areas for GEMS1 support to markets and linkages within the leather industry. The Project is working with partners in the tanning industry (i.e. those that manufacture crust and finished leather in Kano) and those that supply services to the sector to develop improved manufacturing processes and market access for finished leather for export including manufacturing process and market access improvement. The aim is to increase competitiveness responsive to market signals.

By the end of the 5-year GEMS1 Project, the expected results for support to markets and linkages for FLGs include: (1) additional sub-sector growth of \$15 million at export value (i.e. the equivalent of 15% of current crust leather exports exported as finished level or 6 million skins); and, (2) 1,000 net additional full-time equivalent jobs created targeting poor workers and job seekers (50% for women).

Rationale for Support to Markets and Linkages for Finished Leather:

The leather industry is the second major earner of foreign exchange after Oil. In 2008, Nigeria exported around USD680 million of tanned skins but exports fell in 2009 due to the global economic and financial crisis. According to ComTrade for 2010, Nigeria exported around 40 million skins valued in excess of USD 3 billion, and representing about 2,9% of global trade. The formal leather sub-sector in Kano creates around 9,000 full time and 5,000 seasonal jobs: millions of Nigerian households are directly/indirectly engaged in the production of small ruminant skins for the tanning industry.

The formal Nigerian tanning industry based in Kano has successfully responded to Nigerian regulatory change in recent years. When the export of raw skins was prohibited by the government in 1979, the existing tanneries invested in new technologies and machinery to tan the skins into wet blue for export. Following the government ban on wet blue exports in 1999, the industry, tanneries either upgraded to produce crust and finished leather for export or closed. While the number of active formal enterprises has significantly fallen since 1999 (about 6-8 foreign-owned tanneries produce 90% of all crust and finished leather

Recent international leather market signals indicate that the remaining formal tanneries will again need to responsibly upgrade. Over the past five decades, power in the value chain has shifted considerably. Over time 1960-2012, power in the value chain shifted first from skin suppliers and warehouses (from 1960-1975), then to the tanneries (1975-1990) followed by manufacturers (1990-2000), and then to retailers which controlled distribution of the product and sub-contract production (2000-2010). Today, the power is shifting into the hands of the consumer.

As power has shifted gradually further and further away from the tanneries and suppliers, the imperative to become rapidly responsive to demand, and lean and efficient to ensure survival has become increasingly intense. Consolidation is occurring at the retail and brand level, tightening supply chain management. An increasingly challenging environment has accelerated the need for supply chain efficiency and the ability for retailers to leverage global infrastructure and marketing dollars. Increased demand for efficiency has caused retailers to limit the number of suppliers that they use. Product trends that characterize the leather industry today include innovation, design-driven lines/products, technological development,

products), the remaining tanneries are relatively robust.

just-in-time, short lead times, compliance and green technologies.

Kano's leather cluster currently participates almost exclusively at the lower end of the value chain rather than the higher value-added, export-oriented finished leather goods segment. This translates into low value and low margins for manufacturers. In order to remain competitive in future years, the formal tanning sector will need to adapt from being sellers of large packages of commodity crust leather by improving their ability to produce smaller volumes of specific leather products (re-tanned, finished leather and finished leather goods) to meet changing customer specifications. In these circumstances there is a need to upgrade the full range of leather products produced and to improve the interaction of the Nigerian skin leather sector with international and regional customers.

OBJECTIVES, INTERVENTIONS and INDICATORS...

The **expected outcome of GEMS1** is to “improve the performance and inclusiveness of meat and leather sector market systems that are important for poor people” (the Brief on GEMS1 Support to the Meat and Leather Industry provides additional information on target impact and outcome indicators). Carrying a contribution weight of 25% to these GEMS1 impact indicators (i.e. impact outreach and value, and employment) and outcome indicators (i.e. firm growth and value, and systemic competitiveness changes), the **target output of support to markets and linkages for finished leather** is “new and/or improved inputs, services and products that benefit poor people within the finished leather market are introduced through GEMS1 facilitation”.

Interventions in finished leather target:

- Manufacturing Process Improvement:** (a) assisting current export tanners to develop and improve their manufacturing processes to supply “on demand” finished leather products to the standard required by export customers; and, (b) developing skills improvement programmes to assist tanners to access employees trained in finished leather production.
- Strengthening Market Access:** Addressing customer connection and awareness to improve the connection for Nigerian tanners to end market customers including (a) market-led visit programme for target Nigerian enterprises to both current and potential international customers for finished leather; and, (b) development and implementation of an awareness campaign for finished leather sourced from Nigeria.

Indicator information for the GEMS1 Finished Leather output is summarized below.....

Indicator	Baseline 2011	Target 2015
1. Increased production of finished leather skins/hides in target enterprises	0	1,250,000
2. Number of enterprises in the finished leather sector that apply and benefit from improved levels of knowledge and skill and/or use improved inputs and services	0	5
3. Number of service providers that offer and benefit from offering new and/or better inputs and support services to the finished leather sub-sector	0	5

Sources of verification for indicators include: impact assessments sub-sector guides; sub-sector analysis and baselines; intervention control frameworks (containing impact summary); GEMS1 applies the Donor Committee for Enterprise Development (DCEd) results measurement and reporting standards including Value for Money

Assumptions:

Skin and leather import/export trade conditions do not undergo dramatic step change

Risk Rating: (HIGH)

Core project activities are in Kano and Kaduna and thus subject to security risk; Export Expansion Grant distortions are a major issue and the resolution of the political economy around this is not clear

GEMS1 will also facilitate access to commercial and concessional finance for target enterprises via BMOs (see Output Fact Sheet on Support to BMOs and Advocacy). Responsive to the requirements of existing and potential foreign partners, a complimentary GEMS1 output is strengthening the social and environmental responsibility of local formal tannery partners.

Prepared by GEMS1, the DFID-funded programme supporting the Nigerian Meat and Leather Industry implemented by GRM International Limited

