MINISTRY OF INDUSTRIALISATION,
TRADE AND SME DEVELOPMENT

Growth Strategy for Namibia's Leather Industry and Associated Value Chains

Leather and Leather Products

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FOREWORD

The Industry Growth Programme is part of the ongoing efforts to reinforce Namibia's economic growth, to reduce income inequality and to increase employment for its citizens. This Industry Growth Strategy forms part of the support to selected manufacturing industries envisaged by the Growth at Home strategy, which promotes Namibia's competitive advantages and opportunities. This is envisaged through the Special Industrialisation Programme whose aim is to provide targeted support for value chain analyses and feasibility studies.

It is through the implementation of this and other strategies that the Ministry of Industrialisation, Trade and SME Development, in close cooperation with other line ministries, will support local value addition, upgrading and economic diversification. The efforts will help to structurally transform Namibia's economy favouring the most productive and efficient economic activities, and local industries will be provided with improved market access at home and abroad.

The Industry Growth Programme is an important element of the war against poverty and a further step on Namibia's path towards becoming a highly competitive, industrialised nation with sustainable economic growth as depicted in Vision 2030. As such, this strategy's implementation through 2020 is geared towards strengthening forward and backward linkages within the Namibian economy as envisaged in the Harambee Prosperity Plan.

Leather is a strategic industry that has, in agreement with the fourth National Development Plan, been selected for a more specific focus on its economic development. Key stakeholders from the business community and public administration who have a vested interest in the Namibian industry's prosperity for the benefit of all have engaged in extensive consultations and substantially contributed to this programme. They are now eager to implement interventions along the value chain effectively. Many of the suggestions and concerns raised by entrepreneurs and civil servants in extensive discussions have been distilled into this document. This interactive process has once more demonstrated that Namibians together can shape an enabling environment in which the manufacturing sector can thrive and the wellbeing of the Namibian people be advanced.

I am sure that the Industry Growth Strategies have the potential to remove challenges and accelerate economic development in the prioritised areas. The interventions planned for 2016 onwards will allow the targeted industries to prosper according to their inherent abilities. This strategy is a living document. As such, additional comments or remarks from stakeholders are welcome and can be addressed to the Ministry of Industrialisation, Trade and SME Development.

I am confident that, in the vein of the Harambee Prosperity Plan, all stakeholders involved will pull in the same direction in the upcoming implementation phase – as they have done in strategy building – for the advantage of a thriving Namibian economy that creates jobs, incomes and sustainable growth.

Hon. Immanuel Ngatjizeko
Minister of Industrialisation, Trade and SME Development

The Industry Growth Programme is an important element of the war against poverty and a further step on Namibia's path towards becoming a highly competitive, industrialised nation with sustainable economic growth as depicted in Vision 2030.

TABLE OF CONTENTS

ACRONYMS AND ABBREVIATIONS 5

1. NAMIBIA'S LEATHER INDUSTRY AND ITS VALUE CHAIN 6

1.1 Industry Definition 7
1.2 Global and Regional Industry Performance 7
1.3 Industry Background and Evolution in Namibia 11
1.4 Characterisation of Namibian producers and businesses 12
1.5 Classification of Namibian Products 15
1.6 Local Industry Performance 15
1.7 Global and Regional Demand for Products of the Industry 17

2. IDENTIFIED OPPORTUNITIES FOR AND CONSTRAINTS TO INDUSTRY GROWTH 19

2.1 Primary Production and Input Supply 21
2.2 Transformation and Technology 21
2.3 Product Distribution and Trade 22
2.4 Service Delivery 22
2.5 Business Environment 23

3. INDUSTRY GROWTH STRATEGY 24

3.1 Vision of Industry Stakeholders 25
3.2 Industry Growth Indicators and Targets 25
3.3 Strategic Objectives, Indicators and Proposed Interventions 25

BIBLIOGRAPHY 32

ACRONYMS AND ABBREVIATIONS

ASYCUDA	Automated System for Customs Data
BMZ	German Federal Ministry for Economic Cooperation and Development
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
GDP	Gross domestic product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
HS	Harmonized Commodity Description and Coding System
ISIC, Rev. 4	International Standard Industrial Classification of All Economic Activities, Revision 4
LIAN	Leather Industries Association of Namibia
MAWF	Ministry of Agriculture, Water and Forestry
MITSMED	Ministry of Industrialisation, Trade and SME Development
MoF	Ministry of Finance
MSME	Micro, small and medium enterprises
NAD	Namibia Dollar
NDC	Namibia Development Corporation
NIC	Namibia Investment Centre
NMA	Namibian Manufacturers Association
NSA	Namibia Statistics Agency
NTA	Namibia Training Authority
NTF	Namibia Trade Forum
PPD	Public–private dialogue
PPP	Public–private partnership
RSA	Republic of South Africa
SES	Senior Expert Services
SME	Small and medium enterprise
TBD	To be determined
TOR	Terms of Reference
UN	United Nations
UNIDO	United Nations Industrial Development Organisation
USD	US Dollar
VAT	Value-added tax

1. NAMIBIA'S LEATHER INDUSTRY AND ITS VALUE CHAIN

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1.1 Industry Definition

According to **ISIC, Rev. 4**, the manufacturing of leather products is part of Division 15, which includes dressing and dyeing fur, transforming hides into leather by tanning or curing and fabricating the leather into products for final consumption. However, Division 15 also includes the manufacture of similar products from other materials (imitation leathers or leather substitutes), such as rubber footwear, textile luggage, etc. These products are included in the division because they are made in ways similar to those in which leather products are made and are often produced in the same units.

Within this division, a distinction is made between the manufacture of footwear, which falls under Group 152 ("manufacture of footwear"), and other leather processing, which falls under Group 151 ("tanning and dressing of leather; manufacture of luggage, handbags, saddlery and harnesses; dressing and dyeing of fur").

Class 1511 includes "tanning and dressing of leather; dressing and dyeing of fur", meaning it covers the first-stage processing of the leather. It includes the following:

- Tanning, dyeing and dressing of hides and skins
- Manufacture of chamois dressed leather, parchment dressed leather, parent leather or metallised leather
- Manufacture of composition leather
- Scraping, shearing, plucking, currying, tanning, bleaching and dyeing of fur skins and hides with the hair on

Class 1512 covers "manufacture of luggage, handbags and the like, saddlery and harnesses". It includes the following:

- Manufacture of luggage, handbags and the like of leather, composition leather or any other material (such as plastic sheeting, textile materials, vulcanised fibre or paperboard) where the same technology is used as for leather
- Manufacture of saddlery and harnesses
- Manufacture of non-metallic watch bands (e.g. fabric, leather, plastic)
- Manufacture of diverse articles of leather or composition leather: driving belts, packings, etc.
- Manufacture of leather shoelaces
- Manufacture of horse whips and riding crops

1.2 Global and Regional Industry Performance

The leather and leather product industry plays a prominent role in the world's economy, with an estimated global trade value of USD 100 billion per year. Historically, about 65% of leather became footwear. However, this proportion has decreased to 55% over recent years. The rapid and significant growth in the manufacturing of upholstery leather for furniture, airplanes and the automotive industry has been one of the main developments in the leather industry over the past 15 years.

The stronger players on the market are:

China

- Very extensive production of leather footwear, garments, upholstery and other leather products – 23% market share in the leather sector
- Very large and growing (but not adequate) domestic raw material supply
- Large and growing domestic market for footwear, premium leather goods and upholstery
- Very large leather import volumes recorded, mainly from India, Korea and Italy
- Potential limitations to water and energy supply
- Major environmental issues emerging

The leather and leather product industry plays a prominent role in the world's economy, with an estimated global trade value of USD 100 billion per year.

India

- Strong raw material base and tradition
- Good benefits from clustering and investment
- Recent switch from second-hand to new machinery investment policy
- Growing domestic market
- Limitations to water supply due to environmental issues in some regions
- Despite significant growth in recent years, domestic consumption surpassed by tanning capacity
- Extensive production of leather clothing and other leather goods

Brazil

- Strong domestic raw material supply, supplemented substantially by neighbouring countries
- Extensive domestic production of footwear and leather travel bags
- Good links with the USA's footwear market; however, exports affected by the strength of the domestic currency
- High activity in world export markets
- Specialised and effective tanners

Italy

- Strong innovation capacity
- High dependence on imported raw materials
- High levels of flexibility and versatility
- Serving sizeable domestic and regional markets, including Eastern Europe and Northern Africa
- Industry growth, despite high labour and operational costs
- Strong international connections
- Good international image and fashion orientation
- Much of production coming from mostly imported raw and semi-processed (such as wet blue) material, distorting trade data

Regionally, direct competitors for Namibia are South Africa and Botswana. South Africa's leather industry has long been one of the strongest on the African continent and has been supported to a large extent by serving the automotive sector. Lately, there has been some decline in this market segment. South Africa has good-quality sheepskins and significant tanning capacities for them and for bovine hides. South African bovine feedlots are vertically integrated and heavily invested in further value addition across the entire value chain. South Africa uses both chrome and vegetable tanning processes. Approximately 60% of the 14 million cattle available in South Africa are owned by commercial farmers and 40% by emerging and communal farmers.

South Africa has approximately 495 abattoirs, and most have direct linkages with the country's 70 feedlots. The country is not self-sufficient, as beef consumption surpasses beef production. In 2013, a total of 2,982,000 cattle were slaughtered in South Africa from a cattle herd total of approximately 14 million, whilst 5,750,000 sheep were slaughtered from a population of 23,680,000. Furthermore, it is worth noting that South Africa imports raw hides and skins, as well as processed and semi-finished leather, from neighbouring countries including Namibia.

Cattle production in Botswana is highly cyclical and dependent upon rainfall and pricing structures. Farmers sell animals during droughts, flooding the market with poor-quality animals and driving prices down, and then rebuild their herds when rainfall improves. This in turn reduces the number of animals for sale, and animal prices escalate. Since 2001, Botswana has imported small quantities of raw bovine hides (never more than USD 300,000 in value per year). Hide exports have amounted to approximately USD 4 million annually since 2005, down from a peak of USD 10 million in 2001. This peak amount included exports to Italy valued at about USD 8 million. The exports to Italy declined between 2001 and 2006 and were partly replaced by exports to China, Hong Kong and the United Kingdom. South Africa was the most important export market for Botswanan hides, with a share of 57% (as per data obtained from 2010). Between 1995 and 2010, the total number of cattle in Botswana fluctuated between 2 and 3 million heads, and in the 2013 fiscal year, 235,000 cattle were slaughtered.

Africa Cattle Production Volume: 234 Million Heads

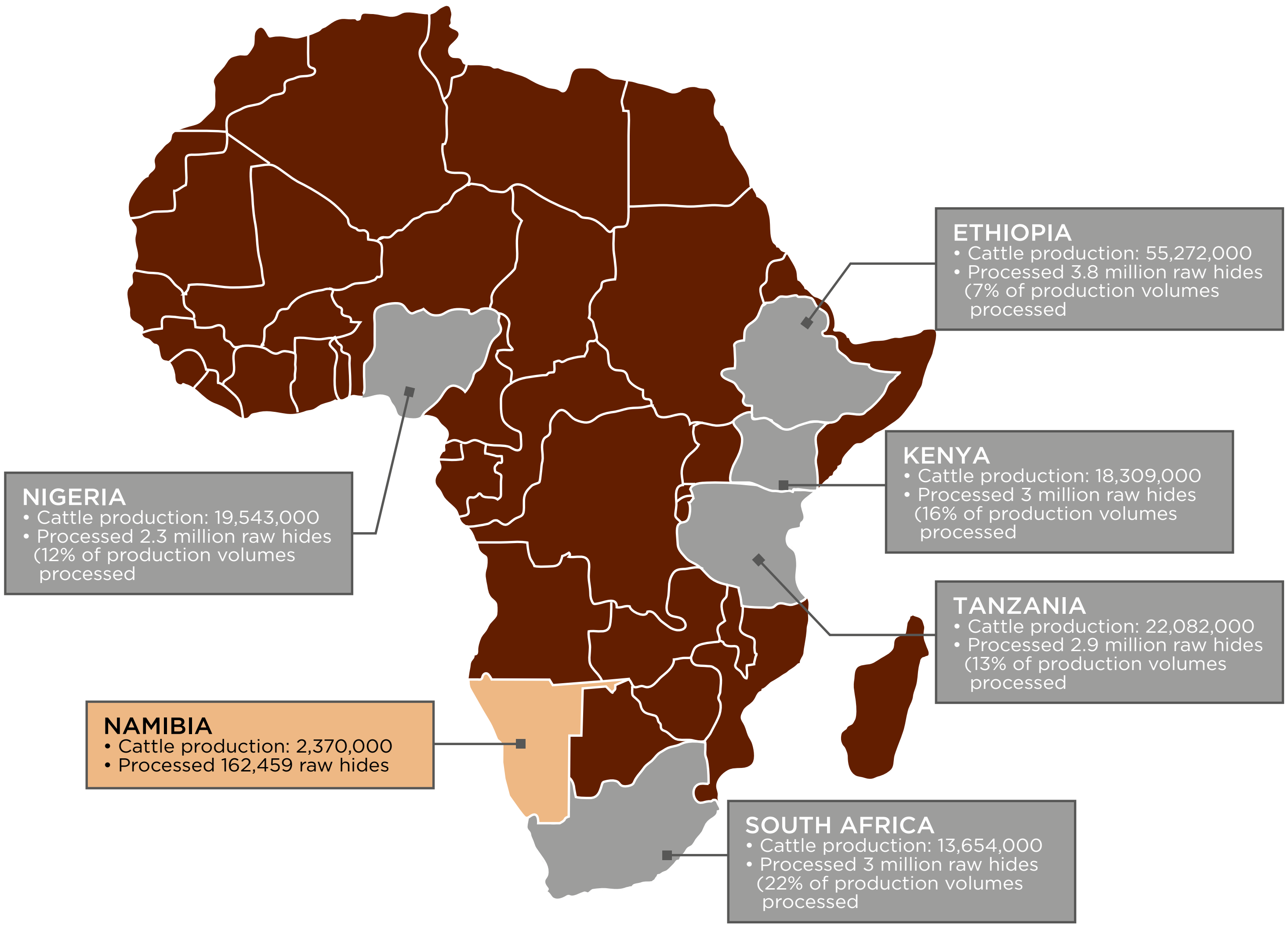

Figure 1: Africa Cattle Production Volume
Source: PwC

NAMIBIA'S LEATHER INDUSTRY AND ITS VALUE CHAIN

Africa Sheep Production Volume: 224 Million Heads

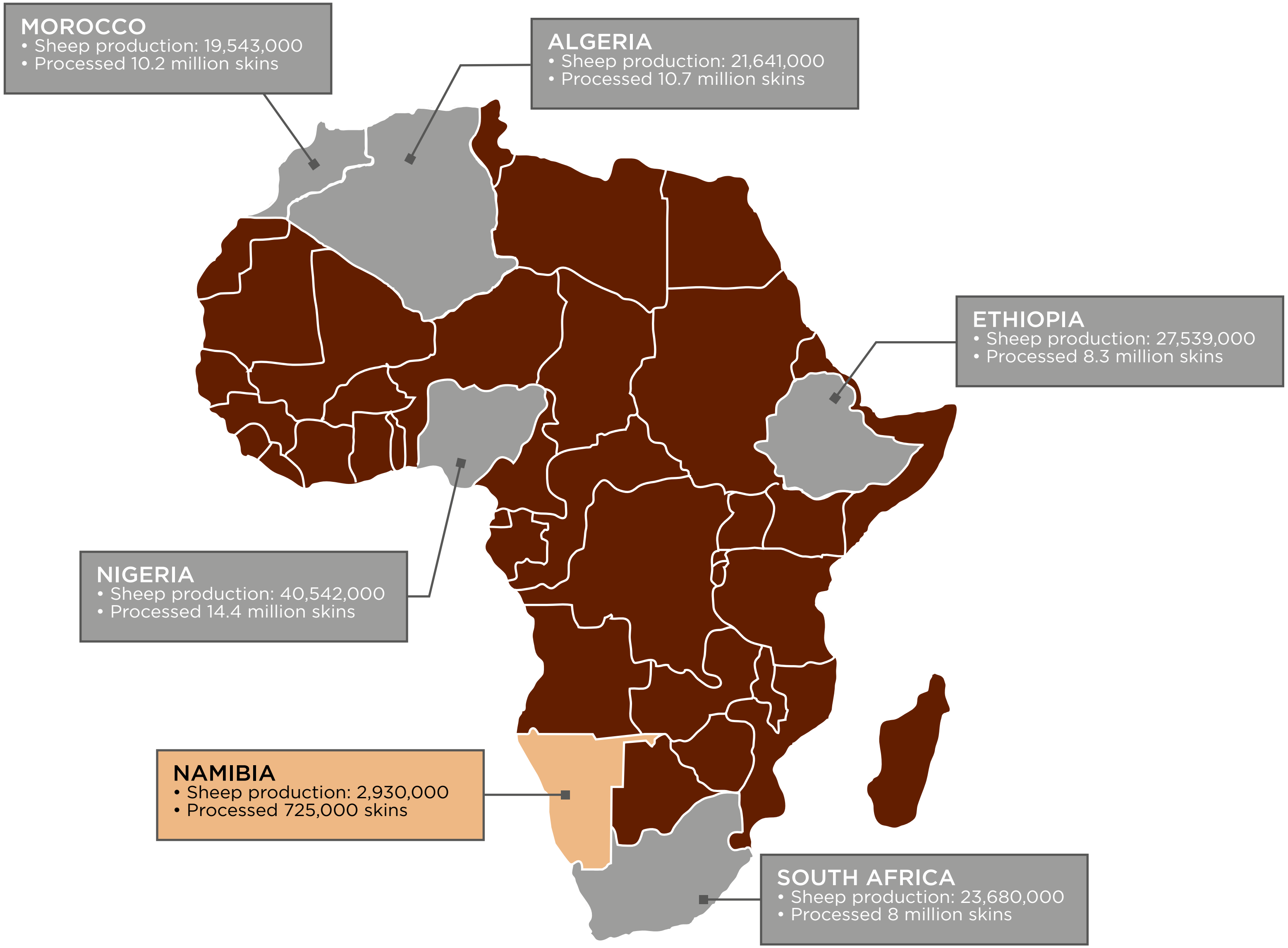

Figure 2: Africa Sheep Production Volume
Source: PwC

1.3 Industry Background and Evolution in Namibia

The leather industry in North Africa has a long history compared to other regions in sub-Saharan Africa, including Namibia. Historically, Egypt has a tradition of leather, tanning virtually all raw hides and skins since the mid-1980s. This is in sharp contrast to other countries on the continent, which either export raw materials or process leather only up to the wet blue stage.

The Namibian leather industry is growing, albeit at a slow pace due to the fact that the country is arid, which poses various environmental constraints for the approximately 4,500 farms that produce livestock and therefore affects the by-product leather. Some key trends influencing the leather value chain have been observed over recent years in Namibian livestock farming:

- A gradual decline in cattle production, as well as a decline in sheep production and disinvestment in the small stock industry
- A decline in utilisation of the seven export abattoirs' capacities
- Producers diversifying to tourism and game farming
- Diversification from ox farming to weaner farming
- Bush encroachment, having a severe impact on livestock farming

As stated in the global and regional overview in the previous section, Namibia's livestock population is relatively small:

- Namibia produces 2,370,000 cattle (0.14% of global market share and 1% on the African continent) and processes 162,459 raw hides.
- Namibia produces 2,930,000 sheep (0.27% of global production and 1.3% within Africa) and processes 725,000 skins.
- Namibia produces 2,235,000 goats (0.24% of global production and 0.8% within Africa) and processes 320,000 skins.

Ostrich, game and seal leather production were not investigated due to the lack of trade statistics and data.

Semi-processed leather (e.g. wet blue) and upholstery leather constitute 90% of the total quantity of leather exported, whilst 10% has further value added locally.

Table 1: Livestock volumes versus hides and skins processsed.

Category	Volume (head)	Slaughtered (for export only)	Hides processed	Live exports
Cattle	2,370,000	129,036	162,459	271,168
Sheep	2,930,000	798,963	725,000	217,246
Goats	2,235,000		320,000	209,994

Source: PwC

1.4 Characterisation of Namibian producers and businesses

The leather industry consists of various formal and informal hide and skin collectors, and more than 350 workers are employed at the operational tanneries.

In terms of meat processing, Namibia has seven export abattoirs, approximately 65 small abattoirs and one operational feedlot, which all serve as key input for the leather industry. Three major tanneries are operational (MeatCo (Okapuka), Nakara, and Brukkaros), and there are a few small community-based tanneries, for example Dune Tannery close to Mariental. The tanneries produce wet blues, pickled skins and tanned hides. They focus primarily on chrome-tanning processes. Namibia imports vegetable-tanned leather from South Africa and other countries, mostly to serve the needs of manufacturers of finished goods. There are also 26 known micro, small and medium enterprises (MSME) that manufacture leather-related products.

Apart from the tannery, Nakara has four retail stores in Namibia, which offer various value-added and finished products such as handbags, clothing, game skins and other leather-related apparel.

Figures 3 and 4 map the value chain for Namibian leather and leather products. The focus is on bovine and crocodile leather.

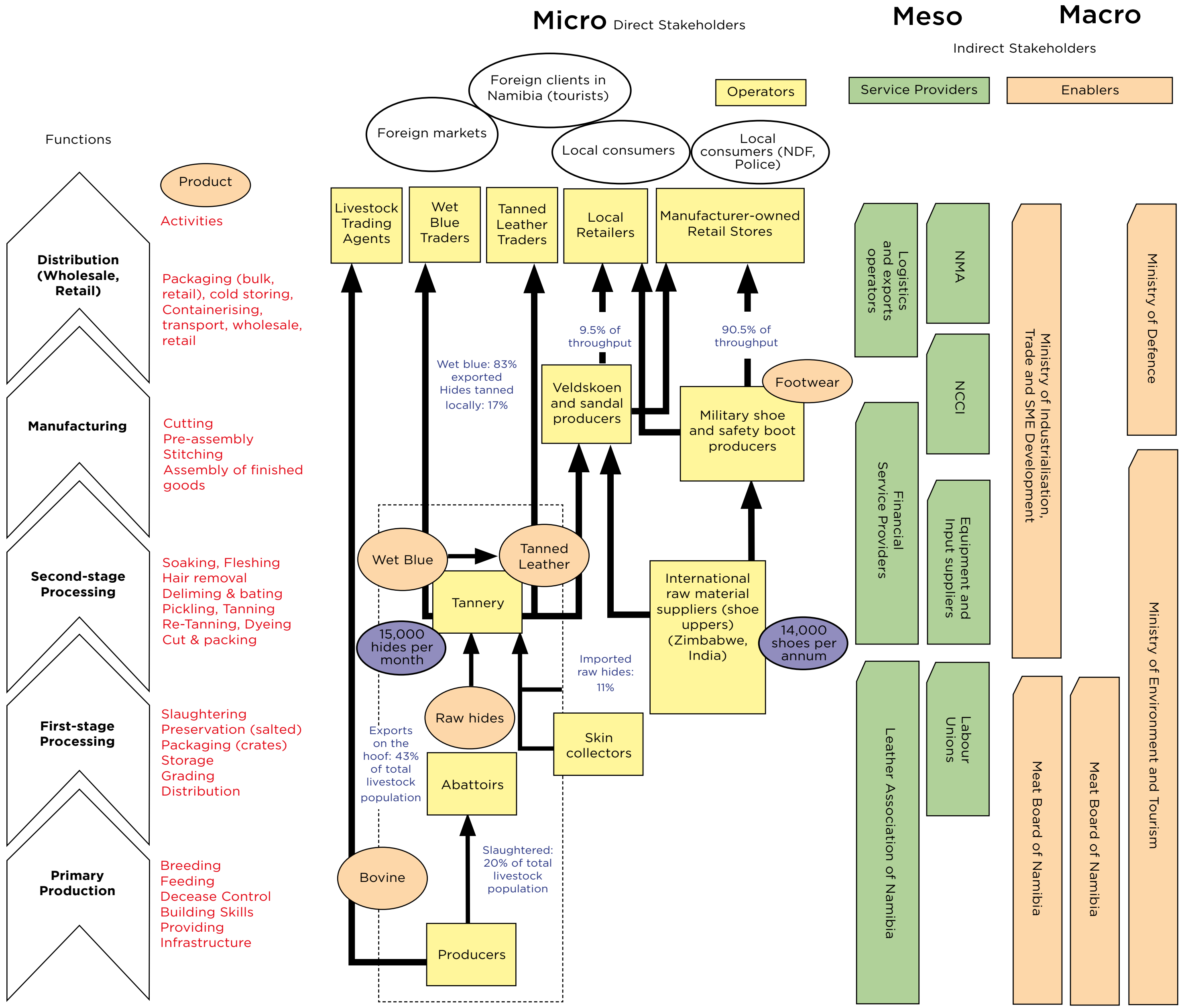

Figure 3: Value chain map, wet blue and bovine leather
Source: GIZ ProCOM, based on PwC

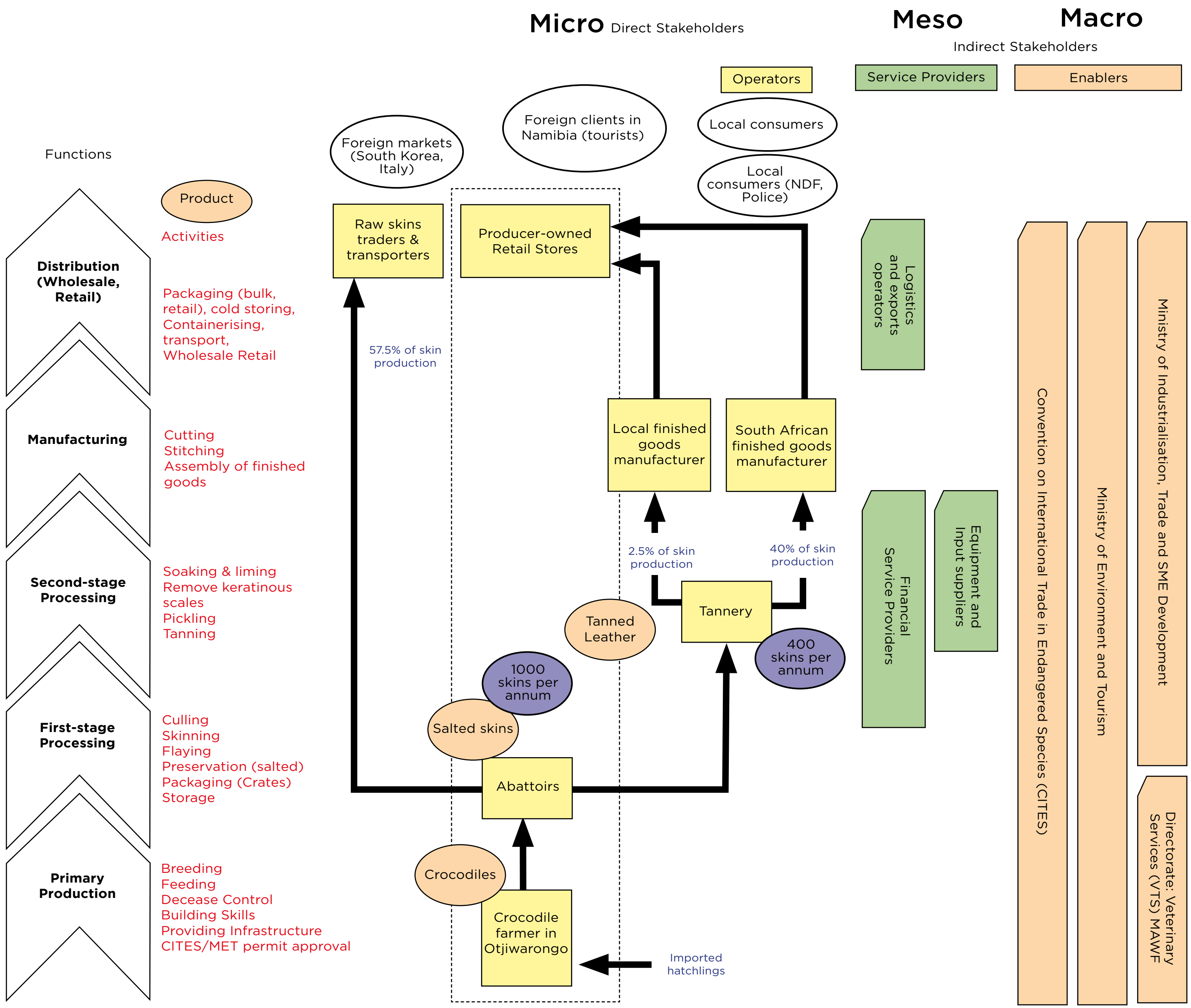

Figure 4: Value chain map, crocodile skins and products
Source: GIZ ProCOM, based on PwC

1.5 Classification of Namibian Products

Namibia produces a variety of leather products; however, only those considered to have high growth potential are discussed below.

Wet Blue Bovine Hide

Wet blue is the first stage of leather processing. Bovine is the most important raw material used in the leather industry globally. The current contribution of wet blues to the Namibian GDP is larger than that of locally produced value-added products, making it worth considering as its own item. The production of wet blue in Namibia is export oriented. In 2014, 168,000 hides were processed, of which 83% were destined for the export market, predominantly serving orders from Italy (73%) and China (10%); the remaining 17% served the needs of the local market.

Shoes

Data obtained from the NSA indicate that imports of leather shoes and accessories for shoes were above NAD 776 million for the 2014 fiscal year. Based on the high value of shoe imports and the fact that various local companies manufacture shoes without using their full capacities, options and opportunities exist within this industry. Manufacturing shoes is a labour-intensive process which could create employment opportunities for the country, especially given that most players in this market segment are MSMEs. Three different types of shoe are manufactured in Namibia: military shoes (90% of production), safety boots (0.5% of production) and all other shoes, such as veldskoen and sandals (9.5% of production).

Exotic Leather Products

Although as of now only small volumes of crocodile skins and crocodile leather products are processed and sold in Namibia, projects to expand local crocodile farming are in the pipeline. Currently, raw salted skins are exported to Italy and Korea. However, a local tanner processes some of the lower-grade skins. Once tanned, the skins are exported to Cape Town for further value addition, and finished products are then re-imported into Namibia for retail. Typical products made and sold include belts, wallets, purses, handbags and key rings. The exotic-leather value chain is a niche market with indications of potential for substantial growth.

1.6 Local Industry Performance

Wet Blue Value Chain

Even though Namibia is a very small player in the industry on a global and even the regional level, the leather value chain contributes approximately NAD 2.5 billion to the Namibian economy and has created at least 2,071 job opportunities, according to the figures obtained during stakeholder consultations.

From an export perspective, bovine wet blue exports (in volume) have declined by 20% over the past five years (2010–2014). This decline, however, has been mitigated by a 220% increase in wet blue prices, resulting in a 150% increase in value earned.

The decline is the result of changes in the regulatory framework, as the borders were opened for exports of animals on the hoof; the increase in wet blue prices can be attributed to foreign exchange fluctuations in favour of Namibian exporters as well as an increase in international demand for wet blue as a product.

Even though Namibia is a very small player in the industry on a global and even the regional level, the leather value chain contributes approximately NAD 2.5 billion to the Namibian economy and has created at least 2,071 job opportunities, according to the figures obtained during stakeholder consultations.

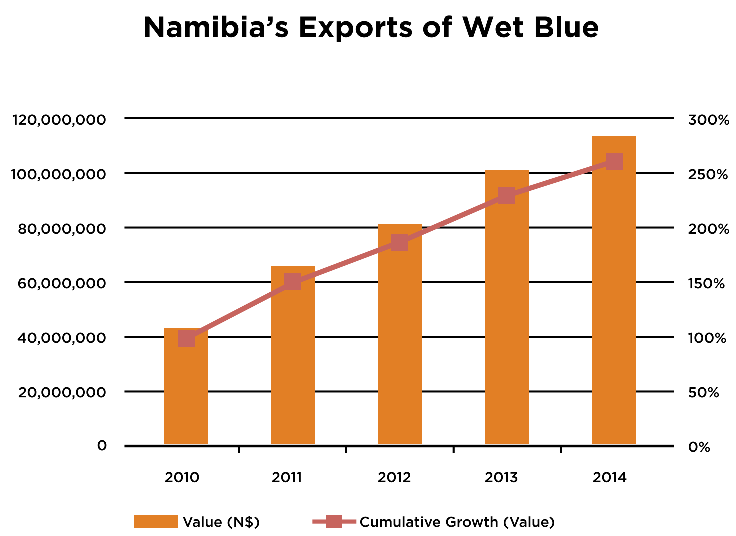

Figure 5: Export value and cumulative wet blue bovine prices 2010–2014
Source: NSA 2015

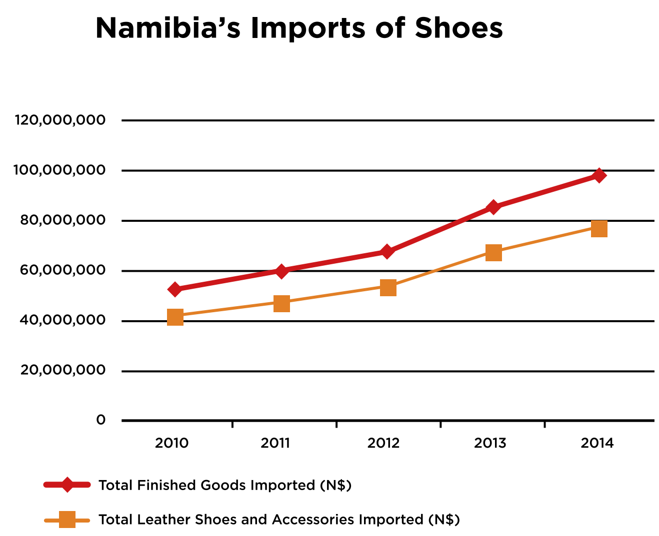

Figure 6: Value of leather shoe imports 2010–2014
Source: NSA 2015

Shoe Value Chain

Namibia manufactures an estimated 14,000 pairs of shoes per annum, of which the largest producer is the state-owned August 26 Okahandja Shoe Factory. The footwear and leather goods manufacturing sub-sector uses local finished leather procured from Nakara (20%) as well as imported shoe uppers (80%) from Zimbabwe and India. Other components such as soles and mid-soles are mostly imported from South Africa and Italy. No leather fashion shoes are manufactured in Namibia, and thus locals rely heavily on importation of footwear; in 2014, 79% of imported finished leather goods were footwear and accessories, the highest over a period of five years (2010–2014).

Exotic Leather Value Chain

No current information is available related to the Namibian game population and its market share within the global or regional context. Namibia's contribution to the crocodile market segment is 0.64% in Africa.

The Otjiwarongo Crocodile Ranch is currently the only captive-breeding crocodile farm in Namibia, but it faces fierce worldwide competition for exports of crocodile skins. The ranch has between 4,000 and 6,000 crocodiles at any given time, with 1,000 marketable crocodiles available per annum. To produce the best skins, crocodiles are fed weekly to prevent them from fighting with each other and keep their skins intact. According to export data on exotic skins and finished leather, the following exports of crocodile skins and related products occurred over the past five years (see Table 2).

Table 2: Exotic skins export data 2010–2014

Processing Stage	Value (N$) 2010	Weigh (Kg) 2010	Value (N$) 2011	Weigh (Kg) 2011	Value (N$) 2012	Value (N$) 2012	Value (N$) 2013	Weigh (Kg) 2013	Value (N$) 2014	Weigh (Kg) 2014
Wetblue	13,042	2,000	0	0	158,784	450	0	0	1,314.00	1,000
Tanned: Crust	2,400	11	0	0	0	0	127.594	1,200	0	0
Tanned: Finished Products	18,571	25	0	0	0	0	0	0	0	0
Total	**34,013**	**2,036**	**0**	**0**	**158,784**	**450**	**1,271.594**	**1,200**	**1,341.400**	**1,000**

Source: NSA 2015

1.7 Global and Regional Demand for Products of the Industry

Export data for a period of five years (2010-2014) from the Namibia Statistics Agency show that the largest contributor to exports is wet blue (41% of exports, worth NAD 148,476,412), followed by tanned leather exports (31% of exports) and finished leather goods (28%). The total value of leather exports for 2014 was NAD 361,766,154.

Demand for Wet Blue

The global livestock population for cattle is 1.6 billion head, of which 275 million are slaughtered on an annual basis. According to data released in 2015, the leather industry growth for 2014 was recorded at 8% instead of the 3–4% which had been the average for a decade. Demand for leather products is accompanied by demand for wet blue, as wet blue is a key input for leather-product manufacturing.

Demand for Shoes

According to the report Footwear Market: Global Industry Size, Market Share, Trends, Analysis and Forecast 2012–2018, published by Transparency Market Research, the global footwear market is expected to grow at a compound annual growth rate of 1.9% between 2012 and 2018. It is further estimated that the footwear market will reach a valuation of USD 221.5 billion by the end of 2018. The global footwear market has seen stable growth due to the rise in disposable income across major economies, which has resulted in increased adoption of fashion trends worldwide.

In total, Africa's footwear production is estimated to be 170 million pairs per annum, while yearly imports, predominantly cheaper shoes from China, are on average 350 million pairs per annum. A study conducted by the United Nations Industrial Development Organisation (UNIDO) found that the world's lowest footwear consumption is in Africa, with 0.5 pairs per person per year, and the highest is in the USA, with seven pairs per person per year. According to a conservative forecast in the above-mentioned report, world shoe consumption is expected to increase to 2.5 pairs per person per year.

Africa provides 14% of the world's supply of hides and skins and, with a population of over 900 million, should be a significant contributor to the global and regional footwear-production market segment. However, more than 74% of the continent's footwear requirements are covered by low-priced footwear imports from Asia and by used footwear from industrialised countries.

Demand for Crocodile Skins and Leather Products

According to data published by CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora), exports of Nile crocodile (Crocodylus niloticus) products appear to have remained steady on the African continent over the past 14 years, with between 140,000 and 170,000 skins exported. The main suppliers are South Africa, Zambia, Madagascar and Zimbabwe. The majority of wet salted crocodile skins are exported to Asia – predominantly to Japan, Hong Kong and Singapore – while some of the finest crocodile tanneries are found in Italy, France and Spain. Analysts forecast an annual growth of 7–8% for luxury goods, including crocodile leather.

2. IDENTIFIED OPPORTUNITIES FOR AND CONSTRAINTS TO INDUSTRY GROWTH

2. IDENTIFIED OPPORTUNITIES FOR AND CONSTRAINTS TO INDUSTRY GROWTH

This chapter describes the identified constraints to and opportunities for the industry according to the analytical framework applied during the industry stakeholder engagements.

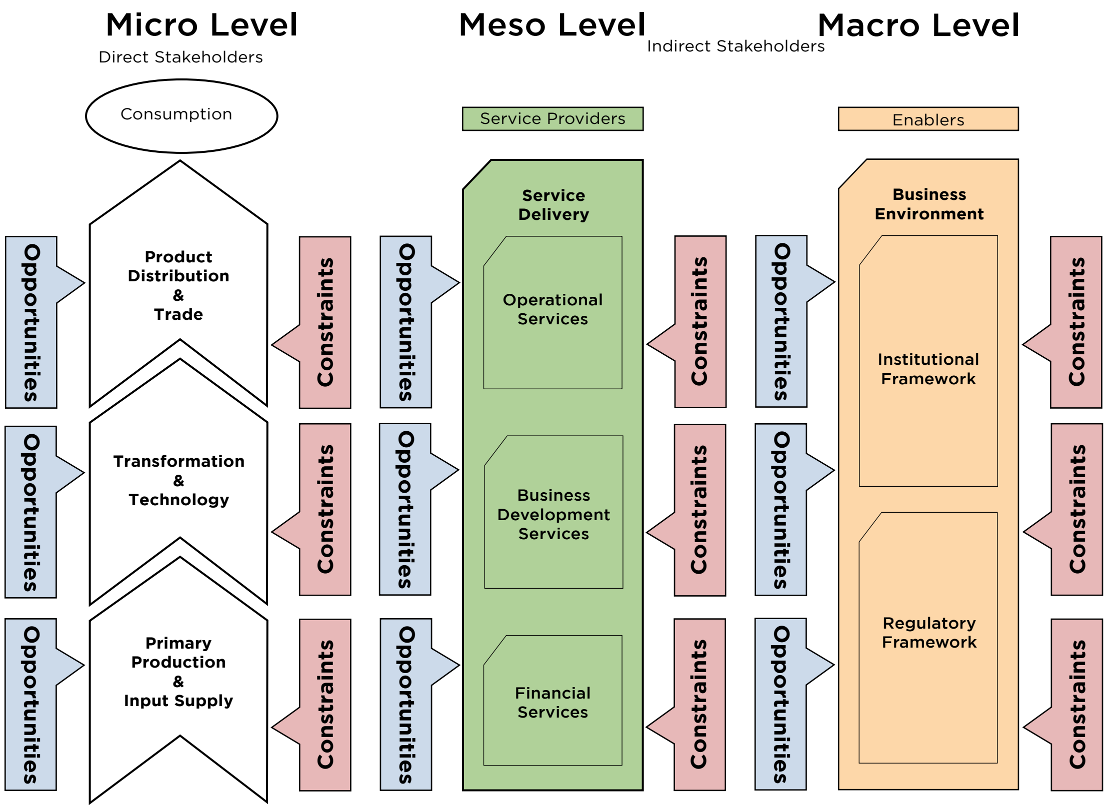

Figure 7: Analytical framework
Source: GIZ ProCOM

2.1 Primary Production and Input Supply

Both quality and quantity of supply are among the major issues for the Namibian leather industry.

Due to Namibia's small cattle, sheep, and goat population compared to populations in the rest of the world, Namibian leather producers lack the critical mass and production volumes required to have influence or bargaining power in the global leather value chain. The production of cattle and sheep is declining gradually, due to the non-competitive prices paid to ox producers. This is leading to a decline in export abattoir capacities. Furthermore, exports of livestock on the hoof as well as raw hides and skins are leading to a lack of supply for local tanneries (and consequently leather manufacturing companies). Information published in MeatCo's annual report for 2013 reveals that live exports to South Africa encompassed 52.8% of total production. Given the fact that the leather industry is directly dependent on the meat industry, this high number of exports on the hoof reduces the financial viability of the abattoirs, as well the existence and success of local tanneries. Hides and sheep skins receive higher market prices in South Africa than producers can obtain in Namibia (NAD 21 per kg in RSA vs. NAD 18 per kg in Namibia and NAD 120–120 in RSA vs. NAD 60–70 in Namibia respectively).

The effect of exports on the hoof is significant; however, the current drought situation and price competitiveness are the main contributors to the industry's supply challenges. For example, approximately 160,000 weaners are exported to South African feedlots per annum. This implies a gain to the South African GDP in excess of NAD 1 billion. The situation is further compounded by the absence of a national intervention policy to govern the supply during times of drought.

This situation forces tanneries to import raw leather from neighbouring countries in order to optimise their production capacities. It is estimated that an average of 60% of the operational costs of tanneries are allocated to procuring raw hides and skins or semi-processed hides and skins.

The quality of Namibian skins and hides is also a concern for the growth of the industry: Namibian skins are predominantly of medium to low quality and are smaller in size than skins found in South Africa. This is due to the severe impact of bush encroachment on livestock farming and on the animals' hides and skins themselves, which are scratched. Additionally, cultural factors in livestock rearing – such as slaughtering older animals, which offer low-quality hides or skins – significantly impact the quality. Overall, there is a lack of awareness of the value of hides and skins. These conditions and slaughtering practices in the informal sector negatively affect the quality of hides.

However, even skins and hides of lower quality can be used for smaller products in the automotive upholstery industry, and a marketing narrative around scratches can appeal to potential customers looking for "natural" leather.

2.2 Transformation and Technology

The local manufacturing base is weak: only 17% of skins and hides processed in Namibia are used for further processing and manufacturing locally. This is partly due to the low purchasing power of Namibian manufacturers. Indeed, Namibian SMEs cannot afford to pay the export parity price for locally processed skins and hides, as it affects the price competitiveness of locally manufactured products on the retail market. Additionally, the aging technology of the equipment, machinery and processes leads to lower-quality final leather products.

Finally, the underutilisation of tannery capacity causes efficiency problems, as fixed costs are too high against production levels. For hides, only 61% of installed capacities are used, and 55% for skins.

The high costs of operations impact the final price of the locally manufactured products. These products are not competitive against imported shoes and faux leather products from low-priced Asian countries. Opportunities exist, however, with niche products such as exotic leather items and veldskoen.

2.3 Product Distribution and Trade

Because of a lack of market intelligence, there is also a lack of the baseline data crucial for monitoring and evaluating the performance of the Namibian leather industry. There are also challenges identifying market opportunities locally, regionally and internationally. This lack of adequate and accurate market intelligence related to trade data and statistics could lead to poor decision making.

The local market for end products such as handbags, belts, shoes, etc. is small compared to the volumes of wet blue produced. As a result, many leather products manufactured in Namibia are export oriented. Exporters have to comply with the regulations of the countries to which they export, so compliance-related additional operational costs are an issue and a potential disincentive to export growth. Public procurement would be an opportunity to access local market shares. However, public procurement via third parties increases costs to the Namibian government (compared to direct procurement from processors and manufacturers).

Additionally, the industry stakeholders are struggling to develop effective local and international niche market penetration strategies for locally manufactured leather products.

Given that effective business clustering or collaboration between sub-sectors is limited, it would be beneficial to promote cluster development and competitiveness in the domestic market.

2.4 Service Delivery

The lack of adequate skills is a major challenge facing the leather industry in all segments of production, as well as within the marketing value chain. Few local training institutions offer courses in leather processing and/or manufacturing. Current livestock-farming practices produce mostly low-quality hides and skins (80% of hides and skins are of lower quality). Input quality could be improved through ongoing education of farmers and livestock producers (farming, slaughtering, curing techniques), leveraging the current farmer-support programmes.

There is also a lack of basic skills in design and manufacturing and a lack of specialised skills. On top of this, business-management and marketing skills are low as well, according to the SMEs interviewed.

Another challenge is the difficulty industry actors face accessing finances for expanding business operations, for working capital and to procure additional machinery and equipment (specifically for MSMEs).

Access to qualitative and affordable infrastructure and commodities is crucial to the development and growth of the industry. The unreliability of the rail infrastructure negatively affects the costs for and competitiveness of Namibian processors and manufacturers. Another example is the expenses related to water and effluent treatments. These costs cannot be passed on to the customers, as the international market is extremely competitive and price sensitive.

Finally, the lack of a standard grading system for raw material (hides and skins) is a disadvantage for the producers. However, the Meat Board is in the process of introducing a national grading system for skins in line with international standards.

2.5 Business Environment

Many constraints pertaining to the regulatory and institutional framework conditions impede further growth for the leather industry and its associated value chains.

The industry would benefit strongly if the policy and regulatory framework were made more coherent, were applied more consistently and were made more conducive to industry growth. For instance, the regulatory framework doesn't ensure that hides and skins remain in the country for value addition. Indeed, though Growth at Home emphasises local value addition, the policy regarding export of animals on the hoof to South Africa and the absence of levy on such export leads to the loss of hides, which has an impact on the supply of raw hides to tanneries. It therefore has a spiralling negative effect on the leather industry. At the same time, the 60% levy on the export of raw hides and skins leads to undervaluation of Namibian skins and potentially their illegal export.

Further, the application of VAT in Namibia is different to other competitors in southern Africa, Europe and Asia. Leather selling prices cannot be quoted ex-factory only; transport to the port of export at Walvis Bay has to be quoted and charged separately.

Moreover, value chain actors use loopholes in the regulatory framework to circumvent some of the governing systems. For instance, it seems that actors exploit the Automated System for Customs Data (ASYCUDA) by using the wrong classification codes to circumvent levies. The supply is also affected by the legislative framework: the Stock Theft Act prescribes that cattle should be marked to curb theft. However, this practise has negative effects on the quality of the hides, which directly affects the leather industry and its price competitiveness. The difficulties crocodile farmers encounter obtaining CITES import licences for crocodile hatchlings to upscale their production capacities also illustrate how changes to the legislative framework could benefit supply.

Several ministries and regulatory entities have a say when it comes to the leather industry. For instance, the Ministry of Agriculture, Water and Forestry, the Ministry of Environment and Tourism, and the Meat Board are involved in export licensing. Increased coordination and cooperation between these entities would help the growth of the industry. The stakeholders expressed the need to merge and to allocate a mandate to one entity in order to manage and govern the export approval process more effectively. The lack of coordination and cooperation between the major stakeholder groups along the value chain also requires attention. Existing associate structures must be strengthened to assist industry stakeholders in promoting and/or defending their interests.

Participants from both public and private sectors positively evaluated the public–private dialogue that took place during the development process of the industry growth strategy.

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3. INDUSTRY GROWTH STRATEGY

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3.1 Vision of Industry Stakeholders

"By 2020, a self-sustainable leather sector will be created through continuous stakeholder engagement."

3.2 Industry Growth Indicators and Targets

- Overall increase in the number of employees in the industry by 2020
  (Base 2016: 2,017, source: estimated during stakeholder consultations process, to be confirmed by survey at a later stage; target 2020: TBD)
- Overall increase in sales values and volumes of Namibian leather products in Namibia by 2020
  (Target 2020: TBD, source: internal monitoring and evaluation system)
- Overall increase in export values and volumes of Namibian leather products by 2020
  (Target 2020: TBD, source: UN Comtrade)

3.3 Strategic Objectives, Indicators and Proposed Interventions

The stakeholders identified five strategic objectives:

Intervention Area 1: Primary Production and Input Supply

Intervention Area 2: Transformation and Technology

Intervention Area 3: Product Distribution and Trade

Intervention Area 4: Service Delivery

Intervention Area 5: Business Environment

Intervention Area 1: Primary Production and Input Supply

Strategic Objective 1:

"Increase and ensure a sustainable and consistent supply of high-quality hides and skins for further processing in Namibia."

Indicators and Targets:

- Increase the local supply of hides to be locally processed into wet blue (Target 2025: +89,000)
- Increase the supply of crocodile skins (Target 2020: TBD)

Proposed Interventions:

Int. Num.	Intervention	Key Activities	Expected Result(s)	Proposed Champion(s)
1.1	**Feedlots and veldt lots** - the development of four cattle feedlots: 1. Kavango Cattle Ranch, 2. Omaheke, 3. Klein Otavi, 4. Kunene and one veldt lot	• Conduct feasibility studies • Draft business plans • Financial allocations for infrastructure	Increase the supply of hides by at least 89,000 and skins (and hence the throughput at tanneries)	MAWF, Meat Board Other partners: NDC, MeatCo, MITSMED

Intervention Area 2: Transformation and Technology

Strategic Objective 2:

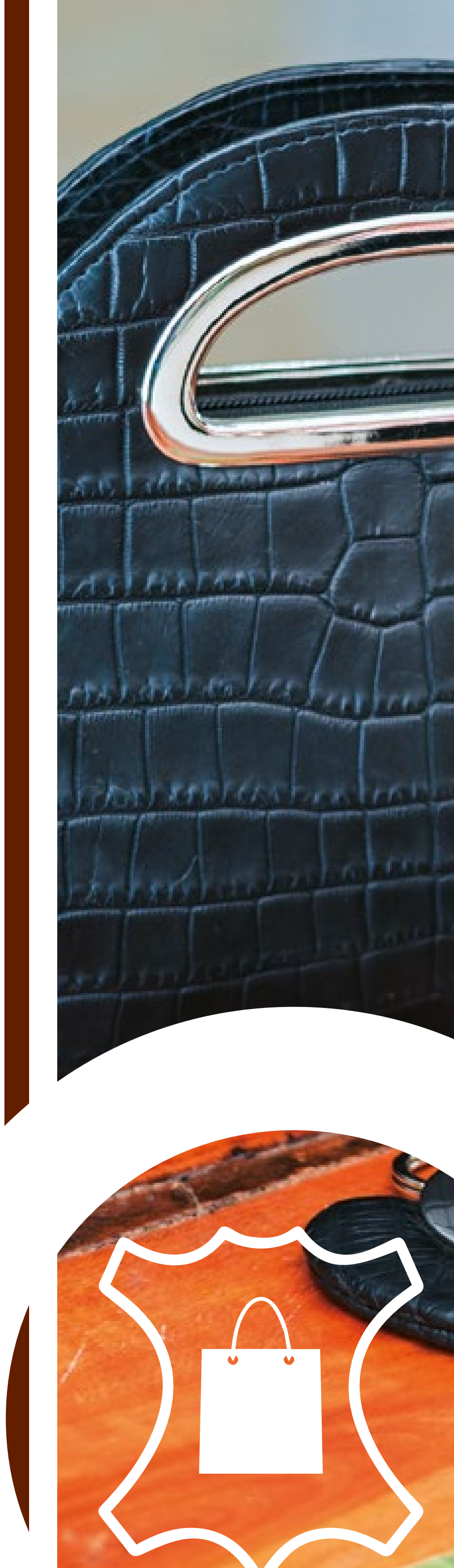
"Increase production capacities, in particular for niche products such as exotic leather products and veldskoen."

Indicators and Targets:

- Increase the range of leather products manufactured in Namibia (Target 2020: TBD)
- Increase the volumes of leather products manufactured in Namibia (Target 2020: TBD)

Proposed Interventions:

Int. Num.	Intervention	Key Activities	Expected Result(s)	Proposed Champion(s)
2.1	**Corbeau South Africa public-private partnership**	Investigate and discuss possibilities for a public-private partnership (PPP) with Corbeau South Africa for the potential institution of Corbeau Namibia as an export-quality finishing/manufacturing plant for exotic leather products such as handbags, wallets, belts, purses and others • Develop TOR • Conduct feasibility study • Draft business plan • Avail and service land • Build infrastructure	Export quality niche market products emanating from exotic leather manufactured in Namibia	NIC, Corbeau South Africa Other partners: MITSMED, Crocodile Farm
2.2	**Veldskoen manufacturing plant**	Investigate the viability of a veldskoen manufacturing plant for local consumption and export purposes, as Veldskoen are iconic in the landscape of Namibian leather products • Develop TOR • Conduct feasibility study • Develop business plan	Increased production capacities for veldskoen; standards in quality and quantity are achieved for the export market	NIC, MITSMED



Intervention Area 3: Product Distribution and Trade

Strategic Objective 3:

"Improve the positioning of Namibian leather products on local and targeted foreign markets through joint initiatives regarding product branding and procurement."

Indicators and Targets:

- Increase the number of national retailers accessed by Namibian leather products by 2020 (Target 2020: TBD)
- Increase the number of additional foreign markets accessed by Namibian leather products (Target 2020: TBD)

Proposed Interventions:

Int. Num.	Intervention	Key Activities	Expected Result(s)	Proposed Champion(s)
3.1	**Product branding and marketing strategy**	Develop marketing strategy to sell locally manufactured niche products in Namibia as well as to obtain export market access Raise the local market awareness about Namibian leather products • Design a Namibian brand for leather products • Develop marketing strategies for each product • Conduct generic marketing campaigns	Improved positioning of Namibian leather on the national, regional and international markets	MITSMED, Team Namibia, NMA, LIAN
3.2	**Public procurement and Retail Charter**	Leverage access to local markets for Namibian leather products via two identified methods: public tenders for leather products through the Procurement Bill and the newly launched Retail Charter • Monitor the implementation of the Retail Charter with regards to leather products • Assist leather goods manufacturers with the tendering process	Increased access to local markets for Namibian leather products	NTF, MITSMED, LIAN
3.3	**National leather database and market intelligence**	Conduct a comprehensive national leather market survey (establishment of baseline values, identification of (local) market opportunities) and maintain a database for hides and skins in order to enhance traceability, as detailed as trade confidentiality allows, enabling value-chain actors to take informed decisions • Draft TOR • Hire consultant to design database and collect data	The foundations for sound decision making, monitoring and evaluation are laid	MITSMED Other partners: MoF, MAWF

Intervention Area 4: Service Delivery

Strategic Objective 4:

"Increase the competitiveness of the leather industry in Namibia, regionally as well as globally, through efficient support services."

Indicators and Targets:

- Percentage of value-chain stakeholders who confirm improvement in local skills availability (Target 2020: TBD)
- Percentage of value-chain stakeholders who confirm improvement in competitiveness (Target 2020: TBD)

Proposed Interventions:

Int. Num.	Intervention	Key Activities	Expected Result(s)	Proposed Champion(s)
4.1	**Training and skill development**	• Provide training and mentoring at grassroots level to improve the quality of hides and skins • Develop specialised skills through subject-matter expert exchange programme, such as SES (Senior Expert Services) • Develop educational programmes in collaboration with higher education institutions in Namibia • Develop learning contents, materials and curriculum • Conduct trainings and awareness campaigns • Monitor progress and impact	Increased local know-how resulting in better quality of skins and hides; more skilled labour force leading to improved productivity	MITSMED, NTA, MAWF (farmer mentoring programmes), traditional authorities
4.2	**Ensure effective infrastructure and utility services**	• Develop more efficient and affordable infrastructure such as railway (TransNamib), water, and electricity • Review of logistics services: efficiency and effectiveness specifically related to Rail transport • Implement direct billing procedures related to bulk tariffs for water and electricity directly from NamWater and NamPower • Investigate the increase in effluent treatment costs and review commercial model	Improved delivery of services, contributing to enhanced competitiveness for the Namibian leather industry	MITSMED Other partners: TransNamib, NamPower, NamWater, City of Windhoek, Ministry of Works and Transport

INDUSTRY
GROWTH
STRATEGY

Intervention Area 5: Business Environment

Strategic Objective 5:

"Put an efficient governance structure is in place, allowing for key policies impacting the leather sector to be revised and effectively implemented, enabling industry players to prosper and stimulating trade."

Indicators and Targets:

- Percentage of stakeholders stating that the policy framework and the business conditions have improved (Target 2020: TBD)
- Number of industry growth interventions successfully implemented under the organised leadership of the industry (Target 2020: TBD)

Proposed Interventions:

Int. Num.	Intervention	Key Activities	Expected Result(s)	Proposed Champion(s)
5.1	**Leather desk at the Ministry of Industrialisation, Trade and SME Development**	Create a leather desk at the Ministry of Industrialisation, Trade and SME Development to coordinate the support services offered to the leather value-chain actors as well as the market intelligence database • TOR for the leather desk • Get buy-in from the industry • Appoint staff to the leather desk	Improved coordination of the support services offered to the leather value-chain actors, resulting in more competitive MSMEs in the leather industry; the market intelligence database is well maintained	MITSMED
5.2	**Leather Industries Association of Namibia (LIAN)**	• Develop MoU between MITSMED and LIAN • Appoint technical expert to support LIAN	Improved efficiency and effectiveness of the LIAN, allowing the LIAN to spearhead the implementation of the leather industry growth strategy; quarterly meetings to report on the progress of implementation, organised by LIAN; better representation for the interests of the industry	MITSMED, NTF, LIAN

Int. Num.	Intervention	Key Activities	Expected Result(s)	Proposed Champion(s)
5.3	**Public–private dialogues**	- Establish public–private dialogue platform in partnership with NTF; develop MoU between NTF and LIAN - Conduct at least two PPDs per annum - Discuss the following aspects of the policy framework: • Border control efficiency, • the ASYCUDA system of application of HS codes, • CITES import licenses for hatchlings, • incentive schemes for small stock and ox producers, and • export permit processes	Inter-ministerial communication among public institutions, civil society and private actors; enablement of the private sector to suggest changes to government; improved ease of doing business as well as increased competitiveness of the Namibian leather industry thanks to the revised policies and regulatory framework	MITSMED, NTF, LIAN

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