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THE BANGLADESH LEATHER SECTOR:
Strategy for Further Development

(Findings of a study carried out for the
Harvard Institute for International Development's
Employment and Small Enterprise Policy (ESEP) Project,
Bangladesh Planning Commission, Government of Bangladesh)

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PLANNING COMMISSION, DHAKA
FEBRUARY, 1990

**With the Compliments of
Dr. M. M. Huq**

Hope you have already received the advance copy
which I sent through a friend. In the enclosed
report, p.44 contains an extra point.

BEST REGARDS,

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**THE BANGLADESH LEATHER SECTOR:
STRATEGY FOR FURTHER DEVELOPMENT**

by

**M. MOZAMMEL HUQ
and
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February 1990

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PREFACE

This report is the outcome of a short study on the leather sector of Bangladesh carried out over a four-week period from mid-December 1989 to mid-January 1990. The main objective of the study is to analyse the characteristics of the industry in an attempt to find out its strengths and weaknesses, thus enabling us to suggest some policy reforms.

The study has benefited greatly for the opportunity we had of having frank exchange of views with a number of key officials of some of the leading organisations presently engaged in the development of the leather industry in Bangladesh, and we are particularly grateful to Messrs Akmal Hossain and Abdur Razzaque Mondal of the Export Promotion Bureau; Messrs M. Kalim Ullah and Mansur Rahman Mian of the Bangladesh Shilpa Bank; Mr. Md. Rafiqul Islam of Bangladesh Shilpa Rin Sangstha; and Quazi M. Abdullah of Bangladesh Small and Cottage Industries Corporation.

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February 1990

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K A Ahmed

CONTENTS

	Page
Preface	iii
List of Tables	vi
1. INTRODUCTION	1
1.1 Specific Aims of the Study	3
1.2 Methodology and Data Sources	5
1.3 Literature Survey	6
1.4 Government Policy Directions	9
2. LEATHER TANNING AND FINISHING	13
2.1 Output Composition and Installed Capacity	13
2.2 Location of the Industry	18
2.3 Size of Firms	19
2.4 Labour and Management	21
2.5 Technology	22
2.6 Export Potential	23
3. FOOTWEAR AND LEATHER GOODS MANUFACTURING	27
3.1 Output Composition and Installed Capacity	27
3.2 Size of Plants	28
3.3 Labour and Management	29
3.4 Technology	30
3.5 Export Potential	32
4. MAIN FINDINGS AND POLICY REFORMS	35
4.1 Main Findings	35
4.2 Policy Reforms	37
BIBLIOGRAPHY	45

LIST OF TABLES

1.1	Gross Output, Value Added, Employment, Fixed Assets in and Exports from Selected Manufacturing Industries, 1984-85	2
1.2	Exports of Leather and Leather Goods (1981-82 to 1988-89)	4
1.3	Export Duty on Wet-blue, Import Duty on Machinery and Spares, and Various Export Incentives on Leather and Leather Goods, 1989-91	10
2.1	Annual Export of Wet-blue and Crust/Finished Leather (1981-82 to 1988-89)	14
2.2	Long-term Credit Provided to Leather Plants up to 1988	17
2.3	Size Distribution of Registered Leather Plants Engaged in Chrome Tanning, 1983-84	20
2.4	Estimated Production Cost and C&F Export Value of Wet-blue, Crust and Finished Leather, 1989	25
3.1	Export-oriented Leather Products Manufacturing Units (including Shoes) Financed by Various Financial Institutions, 1983-87	31
3.2	Estimated Production Cost and C&F Export Value of Some Selected Leather Products from Leather Sector, 1989	33

1. INTRODUCTION

With over 22 million cattle population and 14 million goats/sheep, Bangladesh has traditionally remained an important producer of wet-blue, and crust/finished leather. Quality-wise, the material is in high international demand, Bangladeshi goat leather remaining particularly popular for its superior fine grain.

Table 1.1 shows the position of the leather industry in relation to some of the major industries in the economy, ranking seven highest in order of gross value of output in 1984-85. It is apparent that the industry occupies a very important place in terms of gross output, value added, fixed investment, employment, and manufactured export. Indeed, the leather manufacturing sector has turned out to be an important foreign exchange earner, contributing over 11 per cent of the total export earnings in 1987/88. Only garments, and jute and jute goods were ahead of leather in export earnings.

The leather industry is now reasonably well established in Bangladesh, with about 200 Government-recognised leather plants processing raw hides and skins into wet-blue, crust or finished leather, and over 2,000 leather footwear and leather-goods units (over 90% employing less than 9)¹ producing various kinds of leather footwear and other leather products such as garments, ladies bags, suitcases, wallets and some fancy items. It is, however, the processing of raw hides and skins into some form of crust, finished or semi-processed (wet-blue) leather which has dominated the industry in Bangladesh, as high as 85 per cent of the total

Table 1.1

Gross output, value added, employment, fixed assets in and exports
from selected manufacturing industries, 1984/85

(Value in '000' Tak)

BSIC code	Name of industries	Gross output (Q)	Employment (L)	Fixed assets (K)	Q/L	K/L	Value added (V)	V/L	Exports (% of Total output of the sector)
311-312	Food manufacturing	87,60,582 (2)	47,370 (2)	26,26,673 (3)	184.94 (8)	55.45 (6)	27,35,503 (3)	57.8 (7)	22.8 (2)
314	Tobacco manufacturing	41,96,694 (4)	7,021 (5)	2,24,503 (10)	594.7 (3)	31.98 (9)	30,42,022 (2)	433.27 (2)	Nil
321-322	Manufacturing of Textiles	2,05,47,611 (1)	2,95,385 (1)	60,73,800 (2)	69.56 (10)	20.56 (10)	64,77,525 (1)	21.76 (10)	3.3 (5)
324	Leather and Leather Products	25,83,755 (7)	3,820 (9)	3,27,460 (8)	676.4 (2)	85.7 (5)	4,03,469 (9)	105.6 (4)	76.02 (1)
341	Paper and Paper Products	21,83,782 (8)	9,644 (4)	18,35,723 (4)	226.44 (6)	190.35 (3)	5,43,197 (7)	56.3 (8)	12.7 (3)
350	Drugs and Pharmaceuticals	28,14,286 (6)	14,576 (3)	7,37,560 (7)	193.1 (7)	50.6 (7)	13,79,834 (6)	94.66 (5)	Nil
3514	Fertilizers Manufacturing	29,79,328 (5)	5,121 (8)	97,52,150 (1)	581.8 (4)	1904.3 (1)	16,79,603 (5)	331.9 (3)	4.2 (4)
354	Petroleum Refining	77,44,002 (3)	595 (10)	1,07,085 (6)	13015 (1)	180 (4)	21,00,186 (4)	3529.7 (1)	Nil
382	Non-electrical Machinery	9,16,818 (10)	6,599 (7)	15,37,315 (5)	138.9 (9)	232.96 (2)	2,74,091 (10)	41.5 (9)	Nil
383	Electrical Machinery	15,41,605 (9)	6,660 (6)	3,19,844 (9)	231.5 (5)	48 (8)	5,16,363 (8)	77.5 (6)	.06 (6)

Source: Bangladesh Bureau of Statistics, Statistical Yearbook of Bangladesh, 1989 (p.252-3) and Report on Bangladesh Census of Manufacturing Industries 1984-85 (P.19-P.26 and P. 358 - P. 387).

Note: Figures in Parentheses show the order of Ranking.

output being exported from this sub-sector.

The manufacture of crust/finished leather and that of wet-blue, both for exports, is the dominant activity of the industry (see Table 1.2). The value of exports from leather goods is negligible, although this sub-sector is dominant in the domestic market especially in leather footwear, as almost the entire demand in this regard is satisfied through local production. Another important item of output of the leather sector is vegetable tanned leather, made of buffalo hides. The entire output is locally used for shoe-soles and industrial leather.

1.1 Specific Aims of the Study

The specific aims of the study include the following which are inter-related.

- (i) To identify the products in the sector in which the economy apparently enjoys comparative advantage;
- (ii) To identify the strengths and weaknesses of the relevant sub-sectors of the industry;
- (iii) To find out where the ADP resource may most effectively be allocated; and
- (iv) To review existing policies and suggest if any reform is needed.

Table 1.2
Exports of Leather and Leather Goods
(1981-82 to 1988-89)

(Value in Million Taka at Current Prices)

Types of Leather	1981- 82	1982- 83	1983- 84	1984- 85	1985- 86	1986- 87	1987- 88	1988- 89
Wet-Blue	1254	1285	1712	1388	1201	2823	2828	1983
Crust/finished	10	90	380	410	600	1270	1724	2361
Leather Goods	0.05	0.05	0.4	NA	NA	NA	9.4	NA
Total	1264.05	1375.05	2092.4	-	-	-	4561.4	-

Source: Bangladesh Bureau of Statistics, *Foreign Trade Statistical Yearbook* (selected issues); and Unpublished data collected from Export Promotion Bureau.

1.2 Methodology and Data Sources

Evaluation based on time-series and cross-section data forms the main basis of our study. To start with, growth prospects of the various sub-sectors within the industry have been carefully examined, thus enabling us to see the direction of changes particularly by viewing the expected rates of return in the various sub-sectors. Cross-section analysis covers inter-firm comparisons in the selected sub-sectors.

Data for the study have been collected from both published and unpublished sources. Various published sources (including a recent study by one of the authors which has been extensively used²) have remained an important source of information. However, the main source of information remains data collected from factory visits, interviews with leather technologists, industrialists in both leather processing and leather goods sectors, government officials, and other knowledgeable people in the field. Different types of plants in the industry have been visited, e.g., plants processing raw hides and skins into wet-blue, crust and finished leather, and also those processing finished leather into footwear and other leather products. Of the different organisations visited, the Export Promotion Bureau, Bangladesh Small and Cottage Industries Corporation, Bangladesh Shilpa Bank, Board of Investment, and the Bangladesh College of Leather Technology have featured prominently in our investigation.

1.3 Literature Survey

As early as March 1979 the Government appointed a *Committee on Development of Leather Export*.³ The report of this Committee, which was submitted in March 1980, included specific recommendations for the development of the industry, based on an extensive survey of the leather sector. The Committee suggested restricting export of wet-blue and encouraging export of crust and finished leather and, further, export of leather goods. Cash subsidy, at the rate of 9, 12 and 15 per cent, on export of crust leather, finished leather, and leather manufactures respectively were recommended. The Committee also recommended air-freight subsidy to the tune of 15 per cent of f.o.b. value or 50 per cent of the freight paid, whichever is less. Another important incentive suggested by the Committee is a duty drawback facility on the import of chemicals. The recommendations of the Committee also included provisions for providing capital and finance, creating adequate infrastructure including establishment of a National Leather Institute with autonomous status, combining Bangladesh College of Leather Technology and the proposed Leather Research Institute of the Bangladesh Council for Scientific and Industrial Research (BCSIR), and the formation of a Leather Board to help development of the sector.

The above report has been followed by a number of important studies, undertaken during the first half of the 1980s. In 1981, the World Bank carried out a study, mainly in the form of a survey in connection with its review of the *Second Five Year Plan*.⁴

As part of the ESCAP attempt to identify suitable sectors for development as prime mover industries, a survey report on leather tanning and leather products in Bangladesh was completed by Chowdhury on behalf of the

Bangladesh Small and Cottage Industries Corporation (BSCIC).⁵ This report contains an extensive survey of the industry and provides important insights into the problems and prospects of the industry. A number of action plans were suggested mainly keeping in mind the development of the industry and, in particular, the role of the BSCIC.

On behalf of the UNIDO, David Winters surveyed the leather sector of Bangladesh in 1983.⁶ An important finding of this study was that the installed capacity for wet blue (171 mil sq ft) exceeded the total available supply of raw hides and skins (100 mil sq ft).

In the mid-1980s, two important studies were conducted by the Trade and Industrial Policy Reform Programmes (TIP), a wing of the Bangladesh Planning Commission. The first of the studies was published in 1984 and the second in 1985.⁷ These studies by the TIP Reform Programme have succeeded in outlining specific measures for the continued growth of the industry. An important basis of the TIP Reform Programme's recommendation for the growth of the industry is their finding of satisfactory economic and financial rates of return, thus making the conversion from wet-blue to crust and finished leather economically attractive to the country as well as to the investor. The following table shows the financial (commercial) and economic (social) rates of return as shown in the TIP report.⁸

Product	<u>Financial</u> <u>Rate of Return</u> (%)	<u>Economic</u> <u>Rate of Return</u> (%)
Cow Leather, 1985 Prices	17.5	10.5
Cow Leather, 1984 Prices	32.2	26.5
Goat Leather, 1985 Prices	40.0	42.6
Goat Leather, 1984 Prices	35.3	39.1
Shoes and Uppers	10.6	38.6

The last major study as of to date was conducted by Huq and Islam in the form of an industry study with particular reference to technology choice.⁹ Published in December 1988, this study - which is confined to the processing of raw cattlehides up to finished leather - found satisfactory financial and social rates of return for plants producing for the export market, the social rates of return being higher than the financial rates. A mixed technology - using locally-made wooden drums for wet operations and some other local items such as toggle driers and fleshing machines - combined with imported machinery and equipment from European and some LDC sources like India was found a better choice than the highly sophisticated European capital intensive type technology. In order to improve linkages in the industry, this study recommended for the development of the leather machinery sector and also for the development of the leather goods sector using finished leather. Another important recommendation of the study is the establishment of a new autonomous national body, in the model of the Indian Central Leather Research Institute (CLRI, Madras), which will be able to centralise the scattered training and research facilities in Bangladesh.

1.4 Government Policy Directions

In an attempt to advance the industry from wet-blue to finished leather, the export of wet-blue has been taxed, while incentives have been provided for the export of crust and finished leather. However, there is lack of consistency in the imposition of the export duty on wet blue. Export duty at 5 per cent on wet-blue was introduced in June 1977. The rate was raised to 10 and 15 per cent in January 1978 and July 1978, respectively. But it was reduced to 5 per cent in August 1980 and was raised again to 10 per cent in July 1983, but reduced again to 5 per cent in July 1984, which is the present rate (see Table 1.3). Export incentives have been offered mainly in two forms: (i) Duty drawbacks and (ii) Export Performance Licence (XPL), recently renamed, with some modifications, as Export Performance Benefit (XPB). So as to encourage the producers to move into higher value-added, higher benefit is provided for crust rather than for wet-blue, and for finished leather than for crust. The current rates of the various incentives offered to leather and leather goods exporters are also shown in Table 1.3.

As in the case of export duty on wet-blue, lack of consistency is also observed in duty drawbacks. After withdrawing the facility from wet-blue exporters, the government reintroduced it in December 1986. However, following the government strategy of increasing the value-added of presently exported goods, it has been decided to ban the export of wet-blue after the end of June, 1990. In other words, from July 1990 onwards the leather manufacturers will be allowed to export only crust and finished leather.

The promotion of the leather goods sector is also

Table 1.3

**Export Duty on Wet Blue, Import Duty on Machinery and Spares, and Various Export Incentives
on Leather and Leather Goods, 1989-91**

Stages	Duty Drawback In Tk. per sq. ft.	Export Duty	XPB (% of FOB Value)	Export Credit (Conces- sionary interest rate)	Import Duty (%)		Income Tax Relief	Export Finance Guarantee** (%)	Interest Rate Refi- nance Credit (%)
					M/C & Equipm.	Spares*			
A. Wet Blue									
Hides	1.60	5%(FOB Value)	Nil	14.5	2.5%	50%	Nil	75%	8%
Skins	1.32	5%	Nil	14.5	2.5%	50%	Nil	75%	8%
B. Crust									
Hides	5.45	Nil	70%	9%	2.5%	50%	30-40%	75%	8%
Skins	5.07	"	70%	9%	2.5%	50%	30-60%	75%	8%
Split	1.00	"	70%	-	2.5%	50%	30-60%	-	-
C. Finished Leather									
Hides	7.13	Nil	100%	9%	2.5%	50%	30-40%	75%	8%
Skins	6.76	"	100%	9%	2.5%	50%	30-60%	75%	8%
D. Leather Goods:									
Using local									
Finished Leather	-	"	100%	7%	2.5%	50%	30-40%	75%	8%
Using Imported									
Finished Leather	-	"	40%	8%	2.5%	50%	30-60%	75%	8%

- Notes: 1) Export credit for 90% of the value of firm contract/L.C. amount.
 2) *2.5% import duty is allowed for importation of spares along with the machines. The maximum value of the spares imported under this should not exceed 10% of the value of machinery and equipment.
 3) ** Export finance guarantee goes up to 85 to 95% under comprehensive guarantee.
 4) No import duty on import of finished leather for making leather goods, for exports.

Source: Ministry of Commerce, Government of Bangladesh, Export Policy 1988-1989, and 1989-1991.

covered under the protection policy of the country. There is a ban on the import of leather products such as shoes, bags, and garments. Moreover, the government is actively encouraging the development of the leather goods sector, by providing liberal tax and other incentives including concessionary air freight.

NOTES

1. Bangladesh Bureau of Statistics, *Bangladesh Census of Non-Farm Activities and Disabled Persons 1986*, Dhaka, November 1989
2. *Choice of Technology: A Case Study of Leather Manufacturing in Bangladesh* by M M Huq jointly with K M N Islam, BIDS Research Report No 93, Dhaka, December 1988.
3. K A Ahmed, *Report of the Committee on Development of Leather Export*, Export Promotion Bureau, Dhaka, 1980 (Typescript).
4. World Bank, *Current Economic Situation and Review of the Second Five Year Plan*, Annexe XI, Section on Hides, Skins and Leather, pp. 252-65, September 29, 1981.
5. A.H. Chowdhury, *Study Report on Leather Tanning and Leather Products in Bangladesh*, Bangladesh Small and Cottage Industries Corporation, Dhaka 1982.
6. D. Winters, *Leather Industry Development and Export, Bangladesh*, Report of a Mission submitted to Export Promotion Bureau, UNIDO Project No. BGD/82/016, June 1983.
7. M.N. Huda and Thomas J. Hutcheson, *Assistance Policy Towards the Leather Industry and Policy Issues in Leather Footwear Export Development*, TIP Reform Programme, Government of Bangladesh (June 1984); and Investment Advisory Centre of Bangladesh, *Leather and Leather Products Industries in Bangladesh*, TIP Reform Programme, Dhaka, October 1985.
8. M.N. Huda and T.L. Hutcheson, *op.cit.*, p.8.
9. M.M. Huq and K.M.N. Islam, *op.cit.*

2. LEATHER TANNING AND FINISHING

2.1 Output Composition and Installed Capacity

Until recently, the main product exported from the industry was wet-blue, an initial stage of processing of raw hides and skins with chrome tannage. Almost 100 per cent of the export in leather was in this form as late as in 1981-82. However, following the tax-incentive structures introduced by the Government (see Table 1.3), the share of wet-blue in total leather export has been rapidly declining. In 1989-90, wet-blue occupied a share of 46 per cent, the rest exported as crust/finished (see Table 2.1).

A feature of the growth of leather manufacturing in Bangladesh is the unplanned over-expansion of installed capacity for wet-blue. As mentioned earlier, David Winters surveyed the Bangladesh leather sector in 1983 and estimated that the installed capacity for wet-blue was 171 million sq. ft. while the available supply of hides and skins was around 100 million sq. ft.¹ In the recent past, there has been some increase in the supply of raw hides and skins², but at the same time the production capacity of the industry has also been expanded following the addition of some new plants.

At present, only two leather plants are producing export quality finished leather at a large scale and four others are rapidly moving towards producing finished leather for export. A number of other plants have been producing low grade finished leather for the last two to three years, exported as gloving leather. There are over 20 leather plants which produce crust leather.

Table 2.1

Annual Export of Wet Blue and Crust/Finished
Leather (1981-82 to 1988-89)

Year	Value in Mil. Tk. Current Prices			% Distribution		
	Wet Blue	Crust/ Finished	Total	Wet Blue	Crust/ Finished	Total
1981-82	1,254	10	1,264	99.2	0.8	100
1982-83	1,285	90	1,375	93.5	6.5	100
1983-84	1,712	380	2,092	81.8	18.2	100
1984-85	1,388	410	1,798	77.2	22.8	100
1985-86	1,201	600	1,801	66.7	33.3	100
1986-87	2,823	1270	4093	69.0	31.0	100
1987-88	2,828	1,724	4,552	62.1	37.9	100
1988-89	1,983	2,361	4,344	45.6	54.4	100

Source: Export Promotion Bureau, Dhaka.

a type of leather ready for finish. A number of producers of crust leather are presently installing machinery for producing finished leather. The Government has also selected 22 tanneries for modernisation under a BMRE programme, funded by the Asian Development Bank, to create facilities for crust and finished leather production, eleven of which have already opened LC for importation of machinery, and others are in the pipeline. The Common Finishing Facilities Centre (CFFC), attached to the Bangladesh College of Leather Technology, is also fully equipped to process 500 pieces of wet-blue (cow-hide-based) up to finished leather per 8-hr. shift a day. Besides the above, a new large-scale tannery with a capacity to process 600 cowhides and 5,000 goatskins per day is now being established in the public sector by the Bangladesh Chemical Industries Corporation (BCIC), in collaboration with a Czech machinery supplier.

There is already capacity to process about 90 million sq. ft. mainly up to the crust stage and, if we include the plants which are being modernised or are being newly established, the capacity would be around 130 million sq. ft.

So far as the manufacture of finished leather is concerned, only three to four mechanised units have complete finishing line for quality leather production of international standards, with an estimated capacity of about 30 million sq. ft. per year. Four to five other plants produce finished leather for domestic market (known as '*local finish*'), with an estimated total capacity of around 5 million sq. ft. per year. Besides the above medium and large scale leather plants, there exists a significant small and cottage sector which produces *local finish* leather by using low quality hides and shins, with an estimated capacity of 18 million sq. ft. a year. Thus, including the plants which

are in the pipeline, the total estimated capacity for manufacturing finished leather would be around 100 million sq. ft. by the end of 1990.

The wet-blue sector has succeeded in processing the entire supply, as available, of raw cowhides and goat/sheep skins, estimated at 150 million sq ft in 1988-89, thus representing 88 per cent of capacity utilisation in the sector. In crust/finished, the level of capacity utilisation in the organised sector was 71 per cent in 1988-89. There are, however, wide inter-firm variations in both wet-blue and crust/finished, large firms generally having succeeded in operating at higher capacity levels, mainly because of their better command over working capital and access to international market. However, inadequate availability and irregular supply of the basic raw material (hides/skins) have constrained the level of capacity utilisation in the industry.

An important attraction for capacity build-up in the industry is the expected high rate of financial return. Another important attraction to invest, as observed by Huq and Islam, is that of obtaining credit from the specialised financial institutions as well as from the commercial banks, the former providing long-term loans including foreign currency loan, and the latter providing working capital.³

Table 2.2 can give an idea of the long-term credit provided to leather plants by the various investing agencies. So far as working capital is concerned, given that the leather manufacturing sector is receiving preferential treatment in the allocation of bank loans, almost all the plants included in a recent survey were beneficiaries including some which are presently heavily indebted to their banks.⁴

Table 2.2

Long-term Credit Provided to Leather Plants up to 1988

(Value in '000 Tk at current prices)

Agencies	No. of plants receiving long- term credit	Amount of total credit (Value in '000'Tk)	% of total credit (based on data available)
SABINCO	1	80,000	17.87
Bangladesh Shilpa Rin Sangstha (BSRS)	2	29379	6.56
Bangladesh Shilpa Bank (BSB)	23	338,250	75.56
Under BMRE Scheme (Loan from Asian Development Bank)	16	-	-
Others	2	N.A.	-
Total	44	447,629	

Sources: M.M. Huq and K.M. N. Islam, *op. cit.* Table 3.4, page 19;
 Bangladesh Shilpa Bank (BSB);
 Bangladesh Shilpa Rin Sangstha (BSRS);
 Saudi-Bangladesh Investment Corporation (SABINCO); and
 and Sample survey.

2.2 Location of the Industry

The industry is now heavily concentrated at Hazaribagh in Dhaka, with three-quarters of the total number of registered tanneries located here. Besides, a large number of tanneries at the cottage level, estimated at over 100, are located at Hazaribagh. Such a concentration is likely to offer a number of benefits in the form of sharing knowledge, raw materials, spare parts by the investors, and also helping a rapid development of vertical and horizontal integrations of the industry centering around the locality.

Hazaribagh has, however, turned out to be a wrong place for the concentration of an industry like leather manufacturing. Firstly, the area was originally developed as a residential locality and, consequently, its narrow streets and limited sewerage facilities are highly inadequate to meet the needs of a growing industry like leather manufacturing. Secondly, the unplanned growth of the industry at Hazaribagh and the limited land area available in the locality have not made it possible to make any provision for the much needed effluent treatment. In a recent study it has been found that the leather manufacturers feel the need for effluent treatment and many of them are willing to bear a part of the cost of treating effluent, if a facility can be provided in the form of a central treatment centre.⁵

Two years ago the Government was seriously planning to shift the tanneries from Hazaribagh to a new location at Madanganj. It appears that the decision has not yet been finalised and the delay is likely to be costly to the investors and the nation, since many of the investors are already going ahead with BMRE at Hazaribagh. The uncertainty is also not helpful with regard to provision of effluent treatment at Hazaribagh.

2.3 Size of Firms

Information on the size of firms as available for 1983-84, is presented in Table 2.3. Of the total number of registered firms engaged in chrome-tanning in 1983-84, 72 per cent could be categorised as belonging to small scale (with installed capacity to process less than one mil sq ft of wet-blue and/or crust leather). Of the rest, 18 per cent were capable of processing one to two mil sq ft, 7 per cent from two to five mil sq ft, and 2 per cent more than five mil sq ft of leather. Besides the registered small-scale plants shown in Table 2.3 there is a large cottage sector with over 100 units.

Recent studies conducted, among others, by the Bangladesh Shilpa Bank show the continued predominance of the small-scale firms in terms of numbers, although some bigger firms, a number of them relatively new, have now firmly established themselves in the industry.

The Common Finishing Facilities Centre (CFFC) located at the Bangladesh College of Leather Technology, Hazaribagh, was developed in the mid-1980s, at a cost of Taka 63.4 million, with the main objective of helping the small leather manufacturers, i.e. those producing small quantities of wet-blue, but without having their own finishing facilities. A number of administrative bottlenecks have not helped the full operation of the CFFC. It would obviously be unfortunate if this well-equipped finishing centre were not properly utilised, thus denying the small producers much needed support.

The small producers, who are found to concentrate mainly on the manufacture of wet-blue for exports, have generally been operating their plants at a low level of capacity, on account of experiencing enormous difficulties in the form of lack of working capital; thus rais-

Table 2.3

Size Distribution of Registered Leather Plants
Engaged in Chrome Tanning, 1983-84

Mil Sq Ft	No of Plants*	% Distribution
Less than 1	71	72.4
1 to 2	18	18.4
2 to 5	7	7.1
Over 5	2	2.0
Total	98	100.0

* Excludes 10 firms producing vegetable tanned leather mainly at small scale.

Source: M M Huq and K M N Islam (*op. cit.*, p.27) as taken from Government of Bangladesh, Ministry of Industry. Data as shown in sq mt in the source have been converted into sq ft, round figures.

ing their unit cost of production. On the other hand, the medium- and large-scale plants generally have a higher level of capacity utilisation, the rate being particularly high in the case of large plants.⁶

2.4 Labour and Management

In 1987, the leather manufacturing sector provided employment to over 6,000 persons.⁷ Besides the sector can be credited for generating indirect employment of over 7,250 persons in leather footwear and other leather goods, and of another 1,000 persons in various leather trades including export and wholesale.

There is ready availability of labour at a very low cost by international standards. The average cost of employing an unskilled labourer is Taka 1,200 per month. There is also no difficulty in getting the required skilled labour. Very often, unskilled labourers receive on-the-job training. The average wage of a skilled labourer is Taka 2,000 per month.

At the middle management level, the leather technologists trained at the Bangladesh College of Leather Technology have facilitated the expansion of the industry by providing the much needed technical knowhow. However, the College is facing serious problems as there is an acute shortage of trained teaching staff, and practical training facilities are constrained because of inadequate machinery and equipment in the demonstration laboratory.

In the domestic private sector, at the high management level there is a general predominance of the owner and his family members, many of whom are not necessarily

fully capable of performing their assigned duties. This is seriously affecting the growth of the industry in the desired direction, besides hampering productivity growth.

2.5 Technology⁸

One observes wide inter-firm variations of technology levels in the leather processing and finishing sub-sectors, ranging from primitive to highly sophisticated processing. The cottage sector producing wet-blue and also the leather plants producing finished leather for the local market (*local finish* leather) are found to use hand-operated techniques extensively, e.g. sun-drying, hand-coating and hand-spraying. On the other hand, the medium- and large-scale plants which number around 30 are found to use sophisticated machinery and equipment in many operations such as shaving, splitting, spraying and measuring, the machinery having been imported from some famous European manufacturers. Both mechanical and hydraulic machinery and equipment are found in operations such as fleshing, sanmying, and shaving. The use of the hydraulic press is a common feature in the finishing plants; some have even installed roto-press, a sophisticated piece of machinery. In staking, the modern vibratory operation is now replacing the old jaw-type system. Italy, West Germany Czechoslovakia and England are leading European sources of machinery and equipment, while France is trailing behind. India and local sources are found dominant in operations demanding less sophisticated machinery and equipment. Locally made wooden drums are almost invariably used as this item is obtained at one-third the imported cost. In recent years, two or three local leather machinery firms have been producing toggle driers of the ordinary type.

which the leather manufacturers have found satisfactory.

The leather manufacturers at the medium- and large-scale level are found to be reasonably well-acquainted with the technology. This is due to a number of factors. Firstly, they are frequently in touch with foreign customers and many travel abroad and visit international leather fairs including *Semaine du Cuir* in Paris and the *Hong Kong Leather Fair*. Secondly, the leather manufacturers in Bangladesh are frequently visited by the representatives of some leading leather machinery manufacturers. Thirdly, about a dozen of the entrepreneurs have been in business for over 20 years. Fourthly, the size of the industry is reasonably big with over 200 establishments, including three dozen or so large- or medium-scale plants. Fifthly, the College of Leather Technology, being centrally located, has turned out to be very handy for obtaining information as well as for providing expertise through regular supply of trained leather technologists. Finally, a number of simple types of machinery like paddles, wooden drums and drying equipment have been locally made for forty years, often by the leather manufacturers themselves, and some form of technological capability, though at a low level, has already been achieved.

2.6 Export Potential

As much as 85 per cent of the output from the leather manufacturing sector is presently exported. Moreover, export comprises the top grades of output, the local market being supplied with fifth and sixth grades, or even lower quality of finished upper leather. There is high international demand particularly for Bangladeshi glace-kid produced from goatskins, which is famous for

its grain quality. Wet-blue and crust from goatskins and cowhides are also in high international demand. Indeed, most of the leather exporters from Bangladesh are found to have established good relationship with importers from Italy, West Germany, the USA and a number of other developed countries.

Table 2.4 has been prepared to give an idea of net export earnings over production cost in wet-blue, crust and finished leather. No account has been taken of export duty on wet-blue, nor of the various export incentives offered. It is, however, apparent that large *marginal* benefit exists in processing raw hides and skins into crust, the initial wet-blue stage showing *negative* net benefit. It is, of course, the manufacture of finished leather from raw hides and skins, which is offering the highest single benefit per sq. ft. in the sub-sector. The high local price of raw hides and skins and also of wet-blue is reported to be hampering the growth of the crust and finished leather sub-sector in Bangladesh. It is alleged that the price of local raw hides and skins and also of wet-blue has been kept artificially high, well above the international price, because of concerted efforts by some unscrupulous western importers who would like to kill the emerging crust and finished leather sector of Bangladesh by stopping the proposed ban on wet-blue export.

Crust and finished leather exporters interviewed are also not happy with the present practice of duty-draw-back and XPB as applied specifically to particular products. According to them, a better alternative is to offer, as in India, export incentives as a percentage of export earnings. The introduction of a cash subsidy scheme, in line with the Indian Government's practice of encouraging exports of leather and leather goods, has also been suggested by many of the leather manufacturers

Table 2.4

Estimated Production Cost and C&F Export Value of
Wet-Blue, Crust and Finished Leather, 1989

	Average cost and price price per sq. ft. in Taka					
	Cow Leather			Goat Leather		
	Wet Blue	Crust	Finished	Wet Blue	Crust	Finished
A. PRODUCTION COST						
1. Raw hide/skin	35.00	35.00	35.00	38.00	38.00	38.00
2. Chemicals	2.67	8.63	10.72	2.79	8.58	10.73
3. Wages & Salaries	0.09	0.46	0.52	0.10	0.48	0.55
4. Overheads, including Electricity, Gas, Water, Bank interest, Commission etc.	1.63	3.87	4.09	1.65	3.88	4.11
5. Depreciation maintenance & spares	0.03	1.31	1.41	0.03	1.30	1.40
6. Other Costs	0.04	0.10	0.11	0.04	0.10	0.11
Total	34.46	49.37	51.85	42.33	52.35	54.90
B. EXPORT VALUE	38.40	51.20	56.64	41.60	54.40	61.76
C. Net Export Earning over Production Cost	-1.06	1.86	4.79	-0.73	2.05	6.86

Source: Data collected from field survey.
Exchange Rate US\$ 1.00 = Tk.32.00.

interviewed.

There is consensus among the leather manufacturers interviewed that the administrative procedures geared towards the import of chemicals and the export of crust and finished leather need to be streamlined so as to expedite the production and the export process.

NOTES

1. D. Winters, *op. cit.*, p.171.
2. Figures of cattle, goat and sheep stock as shown in *Bangladesh Census of Agriculture and Livestock, 1983-84* (Volume 1, Bangladesh Bureau of Statistics, May 1986, pp. 51- 55) have been used to make the following estimates of hides and skins.

Estimated Supply of Hides and Skins

	Heads ('000)	Slaughter Rate (%)	Average sq.ft.	Supply ('000 sq ft)
Cattle/ Buffaloes	22,062	15	20	66,186
Goats/ Sheep	14,226	90	3.5	44,812
Total	-	-	-	110,998

3. M.M. Huq and K.M.N. Islam, *op. cit.*, pp. 17-8.
4. *Ibid.*
5. *Ibid.*, pp.20-21.
6. *Ibid.*, p.28.
7. N. Faiz and R. Islam, *The Leather and Leather Products Industry, and the Informal Credit Market in Bangladesh*, BIDS, 1988.
8. For a deeper insight into technology use in Bangladesh see M M Huq and K M N Islam, *op. cit.*, Chapters 3 and 4.

3. FOOTWEAR AND LEATHER GOODS MANUFACTURING

Information on the footwear and leather goods sector is not readily available. To the best of our knowledge, Chowdhury's study referred to earlier, which was carried out in 1982, remains the only serious major study undertaken in this field.¹ Although we would have liked to bring out in-depth up-to-date information on this sub-sector, given the limited time available to us our success was obviously limited.

3.1 Output Composition and Installed Capacity

The leather footwear and leather goods manufacturing sub-sector in Bangladesh is not yet as well organised as the leather manufacturing one. There are about 110 Government-recognised leather goods and footwear units, with annual production capacity of approximately 7.7 million pairs of footwear and 4.6 million pieces of leather goods, respectively. Some of the units are of composite type, producing both footwear and leather goods of various kinds. Besides, there are over 2,000 small, cottage and family-type footwear and leather goods units, each unit capable of producing half-a-dozen to two dozen pairs of footwear and one to two dozen pieces of different types of leather goods per day. Total annual production capacity of the unrecognised small and cottage type sector is estimated to be about 5.4 million pairs of leather footwear and 1.1 million pieces of leather goods. Bata Shoe Co., the local subsidiary of the famous multinational organisation, shares about 60 per cent of the production of the Government recognised footwear units, but it occupies only

one-third share of the whole leather footwear sector, including the small and cottage type units which are producing over 50 per cent of the total output. The footwear and leather goods sector of the country is at present entirely geared to supplying the local market.

The capacity utilisation of the mechanised footwear and leather goods units is generally very poor, the lone exception being Bata. Many of the mechanised plants are utilising only half of the installed capacity and there are some which are producing hardly anything. Some mechanised units were established intending to produce for the export market, but have failed to achieve their objective mainly due to the non-availability of quality finished leather which is the basic raw material for the footwear and leather goods industry. Some of the units have changed their line of production, some even leaving the footwear and leather goods sector. On the other hand, Bata with its established management and own marketing channel including retail sale arrangement is producing at almost full-capacity. Similarly, the small-scale and cottage-type units which supply to the local retailing shops (some even manufacturing on a sub-contract basis for Bata) produce at about full capacity. However, these small units often operate at the mercy of the retail shops and suffer from severe shortage of working capital.

3.2 Size of Plants

Amongst the Government-recognised leather footwear units, only one (Bata) is a large establishment, having production capacity of 14,000 pairs of leather footwear per day with a labour force of 600. Of the remaining

mechanised units there are about 15 medium- to small-scale units, having 40 to 70 employees and producing 150 to 1,000 pairs of footwear per day. The capacity of the recognised non-mechanised leather footwear units ranges from 150 to 250 pairs each daily, employing 20 to 40 employees. The small and cottage units with 2 to 20 employees produce only 6 to 24 pairs of footwear each per day.

Leather goods units are mainly of cottage and small-type with the exception of one or two recently established mechanised units. The daily production capacity of the individual non-mechanised units ranges from 12 to 100 pieces of various leather goods.

3.3 Labour and Management

Leather footwear and leather goods manufacturing units, with the exception of Bata, are mostly of family ownership establishments. The lack of an organised managerial structure particularly at the top and middle levels hampers the successful functioning of these units. The only well-managed establishment is Bata which has a strong management structure and possesses a marketing channel.

As in the leather manufacturing sub-sector, there is ready availability of unskilled and semi-skilled labour. The skill requirement is not very high except in some key operations such as leather cutting. On-the-job training is a common feature in the industry. However, the owners of the mechanised units stress the shortage of well-trained skilled labour required for producing high quality products. Labourers are often paid on piece rates and the wage level is found generally higher

than in the leather manufacturing sub-sector, a skilled labourer even earning Taka 5,000 a month. However, on average an unskilled worker earns Taka 2,000 a month and a skilled worker Taka 3,500.

In the cottage and small scale sector, the use of child labour is a common practice, and they are poorly paid, on average earning Taka 300 a month.

3.5 Technology

Both manual and mechanised methods are operating in the footwear and leather goods sector of Bangladesh. The large number of footwear cottage plants, estimated at over 2,000 units, are operated on manual methods, using hand tools of local source and foot-operated sewing machines of European and Asian origin. As expected, labour productivity in the manual methods of operation is much lower than in the mechanised ones. In the mechanised sector particularly in footwear, machinery and equipment - such as clicking, sewing, lasting, sole-setting and direct moulding - from European sources is found dominant. Recently, machinery and equipment from LDC sources - such as Taiwan, India and South Korea - has been more and more procured. One or two mechanised firms have also got some items of equipment locally made. Local-made wooden shoe-lasts are also very common, only one or two firms having imported metal shoe-lasts. By engineering type, the technology in use in the mechanised footwear sector is of the low-medium level by international standards, with the exception of one firm (Bata) which is using proper assembly line operation, based on medium-sophisticated level of machinery and equipment.

Table 3.1

Export-oriented Leather Products Manufacturing
Units (including Shoes) Financed by Various Financial
Institutions, 1983-1987

(Value in '000 Tk. at current prices)

Agencies	No. of plants receiving credit (1)	Amount of loan (Value in '000' Tk) (2)	% of total credit (2) (3)
Bangladesh Shilpa Bank (BSB)	1	F.C Loan - Tk. 4126 L.C. " - Tk. 300 <hr style="width: 10%; margin-left: 100px;"/> Total Tk. 4426	- 18.01
MIDAS	1	N.A.	N.A.
Agrani Bank H.O., Dhaka	4	F.C.Loan - Tk. 7899	32.15
Bangladesh Krishi Bank	3	F.C.Loan - Tk. 7940 L.C. " - Tk. 664 <hr style="width: 10%; margin-left: 100px;"/> Total - Tk. 8604	35.02
Islamic Bank Bd. Ltd., H.O., Dhaka	1	F.C.Loan - Tk. 3639	14.81
Total	10*	Tk.24568	

*Besides these units, there are two which have been self-financed.

Sources: Bangladesh Krishi Bank,
Bangladesh Small and Cottage Industries Corporation,
Islamic Bank Bangladesh Ltd.,
Agrani Bank.

The leather goods sector operating in the informal cottage and small-scale sector is found to use, as in the footwear sub-sector, manual methods of production with local hand tools and foot-operated sewing machines of European and Asian origin. However, in the recent past a number of firms in the organised sector have obtained credit from various financial institutions (see Table 3.1) and some of them have already installed machinery and equipment - combining mechanical and automatic operations - procured from European and Asian sources.

In the footwear and leather goods sector, the familiarity of domestic entrepreneurs with sophisticated modern technology is not as great as in the case of the leather manufacturing sub-sector. This is because of a number of factors. Firstly, the industry is relatively new, only one of the domestic firms presently operating having been established before the independence of Bangladesh. Secondly, as the firms have been traditionally working for the domestic market, their exposure to high technology as used by many foreign competitors in the export market has remained very limited. Thirdly, with the exception of Bata operating at large-scale, which is an MNC and has the benefit of modern technology back-up of its parent company, all the other plants in the footwear sector are comparatively much smaller.

3.5 Export Potential

Table 3.2 has been prepared to give an idea of net export earnings over production cost in some selected leather goods which, according to a number of investors in this sector, deserve immediate attention. It is apparent that all the four items identified are adding

Table 3.2

Estimated Production Cost and C&F Export Value of Some Selected Leather Products from Leather Sector

Average cost and price per sq. ft. in Taka

	Products			
	Shoe Upper (Per pair)	Wallets (Per piece)	Garment (Per piece)	Belt (Per piece)
A. PRODUCTION COST				
1. Finished Leather	204.32	67.97	1920.00	67.20
2. Other materials & fittings	7.00	8.25	150.00	12.00
3. Wages and Salaries	8.84	9.15	150.00	3.00
4. Overhead including electricity, Bank interest etc.	10.50	7.50	50.00	7.50
5. Maintenance, Depreciation and spare	3.20	2.20	5.40	1.25
6. Others	0.50	0.50	10.20	0.35
Total	234.36	95.57	2345.60	91.30
B. EXPORT VALUE (C&F)	320.00	104.00	2560.00	104.00
C. Net Export Earning (over Production Cost)	85.64	8.43	214.40	12.70
D. Net Export Earning (over Production Cost) expressed in per sq. ft.	17.82	7.03	5.36	8.47

Source: Sample survey.

net benefit, as measured by net export earnings. However, the *net* export earning per sq. ft. of leather is significantly higher in shoe-upper. This is also an item with high export potential as there is a ready demand for the item mainly in the USA and in a number of European countries in which some industrial late-comers such as India, South Korea and Brazil have made big inroads. It is expected that given the high international demand for the Bangladeshi goat- and cow-leather, because of its fine grain quality, there should not be a major constraint in selling shoe-upper in the international market.²

As in the leather manufacturing sub-sector, the footwear and leather goods manufacturers interviewed have strongly emphasised the need for easing customs and other administrative hindrances. The effectiveness of liberal concessions offered by the Government for export expansion is greatly reduced because of the delay experienced by the exporters in obtaining the benefits. As in the case of those producing and exporting wet-blue and/or crust/finished leather, the manufacturers of footwear and leather goods also strongly feel that the export benefit should be given as a percentage of export earnings, measured by f.o.b. value. Depending on the item, the Government might decide to vary the percentage benefit - higher benefit being provided to items deemed more beneficial for export

NOTES

1. A.H. Chowdhury, *Study Report on Leather Tanning and Leather Products in Bangladesh*, op. cit.

2. See the UN *International Trade Statistics Yearbook* for Bangladesh's prospect of growth in leather goods export, especially in shoe-upper, in the light of India's experience in this regard. See also S S Raja, "Progression of Leather Products Exports", *Leather in Asia*, March 1988, and V V Eswaran, "From Uppers to Complete Shoes", *Leather in Asia*, November 1988.

4. MAIN FINDINGS AND POLICY REFORMS

4.1 Main Findings

1. Given the high financial (commercial) and economic (social) rates of return as found for finished leather, especially of goat-based leather, and also for shoes and shoe-uppers, the industry appears to have emerged as one deserving of support for expansion and development. The relatively low financial rate of return (10.6%) compared to the very high economic rate of return (38.6%) in shoes and shoe-uppers prevailing in the mid-1980s, as found in the TIP study, was perhaps the main factor for a rather lack of significant growth of the industry. It is true that since then, following the policy advice suggested by the TIP, footwear and also leather goods for export have been provided with various incentives. However, there has hardly been any marked development of the export-based leather products industry, although the processing of wet-blue to crust and finished leather is rapidly progressing.
2. The leather industry in Bangladesh is now reasonably well-established with about 200 Government-recognised units processing raw hides and skins into wet blue, crust or finished leather. However, the processing up to the finished leather stage is largely confined to the domestic supply of vegetable tanned sole leather and low quality '*local finish*'. So far as the export market is concerned, wet-blue and crust are highly dominant, the export of finished leather forming only a

small part (approximately 5 per cent) of the total.

3. The industry is found to be operating at a significantly low level relative to capacity, under-capacity utilisation being particularly marked in the crust/finished sub-sector and also in the mechanised footwear sub-sector due to the non-availability of the basic raw materials - raw hides and skins or wet-blue in the former, and quality finished leather in the latter. Acute shortage of working capital faced by many of the mechanised footwear and leather goods units is also creating a problem in their continued production or in maintaining capacity utilisation.
4. The superior grain quality of Bangladesh leather, especially that from goatskins provides the main strength of the industry.
5. The availability of cheap labour is another important strength of the industry. Moreover, skill level can be rapidly raised by job training and also by strengthening the facilities of the Bangladesh College of Leather Technology. There thus exists good scope for upgrading the industry - moving into high value-added products.
6. While the value-added from wet-blue is found to be negligible or negative, that from finished leather and various leather products such as shoes and garments is high - thus providing clear indications where encouragements should be provided.
7. The existing level of technology in the organised leather manufacturing sector is found to be capa-

ble of producing quality leather for the international market, but the same cannot be said for leather footwear which is now at a low stage of development so far as output for the export market is concerned.

8. There exists enormous potential for expanding export earnings, estimated at three to four times the present value, following a move from the export of finished leather to that of footwear and leather goods.
9. Delay in clearing customs formalities and various other administrative bottlenecks are regarded by the leather exporters as some serious constraints. They would like incentives provided as a percentage of f.o.b. value, thus greatly easing the customs difficulties.
10. In the domestic private sector, the firms often heavily depend on close family members for providing top managerial functions, although in many cases these people are not capable of performing this role effectively. This has apparently imposed a serious constraint on a rapid and systematic expansion/development of the industry.

4.2 Policy Reforms

Although there is some inconsistency in Government policy for the development of the leather sector, one overriding impression is of a desire to move the industry from low value-added to high value-added products, and the industry has changed significantly from the manufacture of almost entirely wet-blue to the gradual

manufacture of crust and finished leather over the last ten years.

In the light of our findings, we advance below a number of policy changes firstly, for the leather processing sector, secondly for the leather footwear and leather goods sector and thirdly, policy reforms which are common to the various sub-sectors in the industry. At the outset it may be mentioned that the resultant investment allocation is in line with the *Fourth Plan* strategy of maximising sectoral efficiency and also increasing inter-sectoral dependence.¹

(a) Leather Processing Sector

1. Given the negative or low value-added in the manufacture of wet-blue, the Government decision to ban the export of wet-blue after June 1990 is not difficult to appreciate. A build-up of installed capacity is rapidly developing in crust and finished leather, much of which is now unutilised mainly because of shortage of the basic raw material, i.e. wet-blue. Any move to postpone the ban on wet-blue export will not, therefore, help improve capacity utilisation in the crust/finished leather sector, unless there is an improvement in the supply of wet-blue to these manufacturers, say through higher domestic supply or direct import of wet-blue or raw hides and skins. Considering that in the past frequent alteration of decisions on the part of the Government has reduced investors' confidence in Government policy declarations and, further, that easing the supply constraint through the import of wet-blue is not a very feasible alternative, wet-blue export should remain banned after June 1990, as

repeatedly announced by the Government. Alternatively, a high export duty on wet-blue (say, 20%) should be imposed so as to make export of wet-blue less attractive.

2. The capacity build-up for crust and finished leather manufacture under the Government's BMRE scheme (funded by the Asian Development Bank) should proceed rapidly. The eleven tanneries for which loans have already been approved should be encouraged to install the machinery and equipment as quickly as possible. Secondly, another dozen or so tanneries which the Government also wants to include under the BMRE scheme should be quickly selected under some tested criteria such as experience in leather manufacture, export performance, and record of past loan repayment on the part of the investor.
3. The Common Finishing Facilities Centre (CFFC), which was completed in 1987 as a part of the College of Leather Technology, and still remains almost entirely unutilised, should immediately be made operational. Built with over six crores of Taka, the Centre which can process 500 hides per shift/day will greatly help small wet-blue manufacturers to remain in the industry and carry out crust and finished processing by using the facilities at the CFFC. Improving the management of the CFFC by changing it into a Public Ltd. Co. with 51 per cent share-holding by the Government should also be seriously considered. (It may be mentioned that in some of the recent privatizations, e.g. in Rupali Bank, the Government has kept a 51 per cent shareholding.)

4. Following the proposed ban on wet-blue export after June 1990, the natural development is to move from crust to finished leather for increasing value-added, employment and export earnings. The Government should, therefore, make its standpoint clear by announcing well in advance the withdrawal of incentives on the export of crust leather, say by 1995, so as to encourage the industry to move rapidly into higher value-added products.

(b) Leather Footwear and Leather Goods
(Specific Policies)

1. As the raw material constraint is severely hampering the growth of an export-based leather products sector (including shoe uppers and garments), specific measures are urgently required. First, as in India, if some cash subsidy is given to the export-based leather goods manufacturers they can pay a higher price than they are able to do now to the finished leather manufacturers for the required raw material. Secondly, the feasibility of introducing a quota scheme through which the leather manufacturers will be required to sell a part of their output to the leather goods manufacturers should be considered. Thirdly, the existing finished leather manufacturers should be encouraged to move to footwear and leather goods manufacture.
2. As attention will be focused on crust and finished leather from July 1990, we should start thinking about *exporting shoe-uppers* for which there is a ready international demand, especially for the good-quality goatskin- and cattlehide-

based leather of Bangladesh. First, two or three of the existing leather plants should be encouraged to move rapidly to exporting shoe-uppers. Secondly, the BCIC's leather complex at Nayarhat should immediately start developing capacity for shoes and shoe-uppers for exports, especially considering the fact that in the original project proposal this was advanced as an important justification for public investment in the leather sector. Thirdly, the Government should announce liberal cash incentives for the export of shoe-uppers, an item showing high value-added.

3. The manufacture of *leather garments* is labour intensive and is likely to remain at small to medium scale. The sector which is now at an initial stage of development should also be encouraged because of the high value-added found in this item.
4. Immediate large scale export of *complete shoes, boots, wallets and other leather goods* does not appear to be a practical proposition, given the current state of industry. The manufacture of these items should, however, be continued and rapidly encouraged for the domestic market and also for the tourist shops in the country.
5. Given the large role played by the small and cottage units in the footwear and leather goods sector, it is not difficult to appreciate the development potential that exists. Indeed, this sector has been found to contribute significantly to India's export expansion of leather products, understandably because of the high quality of output produced by the craft-based labour-intensive method that goes with the industry.

Bangladesh Small and Cottage Industries Corporation (BSCIC), which is already helping this sector with some training facilities, can be assigned the responsibility for helping effectively with exports of products of the small and cottage units.

6. Given the development potential of the footwear and leather goods sector, we strongly feel that the sector should be studied in greater depth than we have been able to do in the course of our brief investigation.

(c) Common Policies for the Leather and Leather Products Sector

1. The fact that the export of finished leather and also of leather goods falls into the fashion trade implies that it is urgently necessary that *air shipment* is strongly encouraged by rapidly building facility for this and also by providing incentives in the form of liberal *air freight subsidy*.
2. Export of finished leather and leather goods demands quick shipment as it is specifically aimed at the fashion market. Consequently, customs and other administrative bottlenecks need to be eased.
3. Since an important objective is to increase export earnings, the export performance benefit (XPB) - which is now paid on the basis of the type of export - should be changed, providing export incentive as a percentage of f.o.b. value. According to our study, this policy reform is perhaps the most important one which needs to be

undertaken *immediately*.

4. Attention should also be focused on the local development of the leather and leather goods machinery sector, especially as a number of items of locally produced machinery and equipment have already been found to reduce unit costs of production, while producing export-quality output.² Moreover, the use of local machinery will help develop the linkage effects, an important objective of the *Fourth Five Year Plan*.

5. Despite the various past attempts to centralise the scattered training and research facilities in the leather sector of the country, a strong and centralised institute for this purpose is yet to be established. A block allocation (say, of Taka 20 crores which is only one-third of the projected capital investment in the public sector leather plant at Nayarhat) should be made in the *Fourth Five Year Plan* for the establishment of such an institute. The *Central Leather Institute of Bangladesh* (CLIB), that we propose, would bring together the small research facilities available at the BCSIR and the training and other facilities available at the College of Leather Technology. It will also be well-equipped to provide the necessary R & D facilities for the fast growing Bangladesh leather industry, besides providing training in high-level skill and management.

6. Given that the Bangladesh College of Leather Technology, the only training institute of its kind in the country, has been facing serious problems for a number of years, e.g. shortage of trained teachers and highly inadequate lab facilities, it is necessary to take measures on an urgent basis to remedy these problems. The delay in getting the College fully functional will seriously jeopardise any planning effort of achieving a rapid transformation of the leather sector.

7. There is an urgent need to take a decision on the location of the industry, particularly for the processing of raw hides and skins into wet-blue, crust and finished leather. If the Government finds it difficult to move the leather plants which are highly concentrated at Hazaribagh, an immediate provision should be made for effluent treatment. To start with, the Government should build a central facility for effluent treatment, leather producers (including wet-blue manufacturers) being required to bear at least part of the running cost.

NOTES

1. S M Ali, "A Preliminary Outline of the Fourth Five Year Plan", Planning Commission, Dhaka 1989.

2. M M Huq and K M N Islam, *op. cit.*

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