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Skins and Hides in Four Countries in Africa:

The Potential Role for Micro- and Small-Scale Enterprise Development

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7250 Woodmont Avenue, Suite 200, Bethesda, Maryland 20814

DEVELOPMENT ALTERNATIVES, INC. • Michigan State University • ACCION International • Management Systems International, Inc. • Opportunity International • Technoserve • World Education

Skins and Hides in Four Countries in Africa:

The Potential Role for Micro- and Small-Scale Enterprise Development

by

William Grant
Development Alternatives, Inc.

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EXECUTIVE SUMMARY

The skins and hides subsector is a source of much employment in the Sahel, especially among micro- and small-scale enterprises (MSEs) in tanning, trading, leather working, and shoemaking. A review of the skins and hides subsectors in Niger, Burkina Faso, and Mali reveals many commonalities among the countries. A similar review of skins and hides in Lesotho provides a perspective from a country with a different culture and different economic situations, but with remarkably similar problems and opportunities. The cross-country and cross-regional comparisons provide many insights into the future opportunities for MSEs operating in the subsector.

CONCLUSIONS

Government policies designed to restrict trade of skins and hides across borders have not worked as well as market forces have to foster the development of local industries. Although the formal trade of skins and hides has virtually disappeared in Mali and Niger, skins from these countries are traded informally in neighboring markets in Burkina Faso and Nigeria, which are still dynamic. The net result is commercialization of the vast majority of available skins, despite official figures showing major losses.

Because of limited quantities of available skins, most of which are already being traded, there is little prospect of increased trade of skins and hides. Therefore, any potential for significant economic growth will have to focus on value-added processing — into leather or finished goods.

The limited local markets for artisanally produced leather goods do not offer opportunities for significant economic expansion. There are not enough tourists for a significant tourist trade, and the quality is too low for exports. The local leather products will have to compete with imported products on the basis of lower cost but similar quality. Local artisanal MSEs will need to change their modes of operation to capture this market opportunity.

Developing opportunities for local industry to compete with imports requires better skills and access to higher quality leather. MSEs can compete with imported products as well as or better than large firms if the MSEs can apply industrial techniques and use industrially tanned leather. Small firms are better able to weather the changes in the local economy than are large factories.

Important dynamics of large firms and small firms operate between MSEs and tanneries and shoe factories. These large firms serve as the source of the skills, markets, and improved inputs that are necessary for MSEs to produce better quality and more competitive goods.

RECOMMENDATIONS

The decision to promote the skins and hides subsector is a political one, but it can best be served by engendering an enabling environment that allows market forces to play their hands and the private sector to respond to economic incentives. The trade of raw skins and hides is already responding to

market forces, ignoring government policy efforts to stimulate inefficient local industry. Therefore, future government intervention should focus on removing inefficiencies rather than on inserting them.

To promote the growth of the leather goods sector, donors and governments need to focus on three matters: providing incentives to improve market coordination, resolving the leather supply problem, and facilitating skill transfer. If policy makers decide that they want to develop the local leather goods industry, they will need a source of quality leather at a competitive price. Quality leather could be produced in the region if the commercial linkages could channel the regional supply to one country — providing the economies of scale needed for a viable industrial tannery. Such market coordination should be induced by providing fiscal incentives.

Although a few MSEs have demonstrated the capacity to competitively produce high-quality goods, these have been modern firms with a good skill base in Burkina Faso and Lesotho. Artisanal production has not been able to capture significant portions of the market — and will not, unless it can significantly change its modes of operation and the technology it uses.

SECTION ONE

INTRODUCTION

In many countries, skins and hides are a potentially important natural resource that can generate value added in domestic production as well as be a source of export revenue on the world market. Between January 1990 and July 1991, the GEMINI project carried out research from the perspective of micro- and small-scale enterprise (MSE) in four countries of Africa where livestock plays a very important role in the day-to-day lives of the people. Three of the countries are in the Sahel and the fourth is in Southern Africa. Burkina Faso, Mali, and Niger are neighbors in the Sahel and exhibit similar patterns of local tanning and use of the skins from sheep and goats and the hides from cattle.[1] The fourth country, Lesotho, is extremely different from the other three, from the collection of skins and hides to the products made and sold by MSEs. Some of these different characteristics and major trends will be discussed below.

[1] "Skin" and "hide" are often used interchangeably, but do have technical differences: a skin comes from a small ruminant, such as a goat or a sheep, while a hide comes from a larger animal, such as a cow, an ox, or a horse.

SECTION TWO

STRUCTURE OF THE SAHELIAN SKINS AND HIDES SUBSECTOR

In the interest of concentrating on MSEs, the discussion in this section focuses on the use of goatskins and sheepskins in these three Sahelian countries. While cowhides are of greater value per unit, they are rarely tanned at the rural levels and the leather is usually too thick for use by most of the local MSEs. Therefore, the great majority of MSEs in the subsector work almost exclusively in tanning and manufacturing articles from goatskins and sheepskins.

Table 1 presents estimated statistics on the size and form of the trade of skins; Table 2 shows employment in all three countries.

TABLE 1

TRADE IN SKINS IN MALI, NIGER, AND BURKINA FASO
(millions of skins)

	Mali (1990)	Niger (1988)	Burkina Faso(1990)
Total supply:	2.1	2.1	2.5
Exports:			
Raw (official)	0.7	0.63	3.3
Raw (unofficial)	??	0.75	--
Wet blue	--	--	0.9
Locally processed	0.4	0.3	0.65

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TABLE 2

ESTIMATED MSE EMPLOYMENT IN SKINS AND HIDES TRADE[2]

	Mali (1990)	Niger (1988)	Burkina Faso (1990)
Tanners	1,600	450	800
Leather workers	1,540	1,500	2,000
Shoemakers	5,500	3,500	2,200
Small traders	??	??	150
Export traders	11 (4 big)	22 (8)	5 (2)

Sources: Mead et al., 1990 (Niger); Grant et al., 1990 (Burkina Faso); Grant et al., 1990 (Mali); Moorey et al., 1990 (Niger).

SKINS TRADE

An interesting dynamic exists among the three countries that is little documented but provides insights and a lesson in the importance of developing a soundly run commercial skin trade within the country. The outstanding statistic from Table 1 is the surplus of skins officially exported and processed in Burkina Faso, compared with the number theoretically available. This makes a little more sense when one compares the flows of skins from Mali and Niger, where official exports are well below the available supply.

Burkina Faso, unlike both its neighbors, still has active and dynamic state-run companies in the sector. The Société Burkinabé des Cuirs et Peaux (SBCP) and the Société Burkinabé pour la Manufacture de Cuir (SBMC) have each formed joint ventures with a French firm, the Société Européene des Peaux (SEP). In Mali, in contrast, the official state-run trading company, the Société Malienne des Cuirs et Peaux (SMCP) closed at least five years ago and the tannery, TAMALI, limps along on the strength of a marketing arrangement with the People's Republic of China. Meanwhile, in Niger, the Société Nigérienne des Cuirs et Peaux (SNCP) struggles, while the tannery, SONITAN, closed two years ago.

The SEP relationship provides the Burkinabé firms with working capital and good marketing outlets in Europe. The SEP has an international reputation that allows it to gain a higher price in the world market. This allows the SBCP to pay a higher price for its product, which, in turn, allows it to get a higher quality product. Building on the reputation for quality the SEP has helped establish, a second significant importer has started operating with a very quality-conscious network, capturing up to 35 percent of the total market.

[2] Butchers are not included in these totals, for various reasons.

The efficient Burkinabé firms are able to pay higher prices and appear to have captured a large portion of the raw skins market from Mali. Though this latter effect is not well documented, both major exporters from Burkina report heavy purchases near the Malian border. It is reasonable to assume that southwestern Niger also provides some skins to Burkina Faso for export, although most of the documented 750,000 skins in unofficial export are flowing to Nigeria, where government policies make it very profitable to buy skins for re-export and provide access to officially recognized hard currencies.[3]

One interesting contrast between the three countries is that the two major Burkinabé firms concentrate on skins, dealing with hides only when they can get them fresh.

The successful export trade seems to have two major effects on MSEs:

- First, the traders capture nearly all of the higher quality skins in the country, pushing up the price for local tanners seeking better quality skins; and

- Second, the quality-conscious major exporters reject up to 10 percent of the skins they collect for export because they do not meet quality standards, so these are provided at a very low price — 50 CFA per skin — to traders who then sell to tanners or pay tanners to tan the skins for them. This is a large source of skins for traditional tanners.

One figure not well known is the flow of traditionally tanned skins to the coastal markets, where they are used for local handicraft production. Sources in Burkina Faso indicate that this was a major activity in the late 1980s, when the world market demand was up — accounting for up to 100,000 tanned skins per year — but is now below 20,000. In Mali, there was a steady demand for tanned skins from Liberia and Guinea, but that has dried up since the war in Liberia began. Skin traders in Togo report that they get supplies from across the Sahel, including northern Nigeria.

LEATHER-WORKING MSEs IN THE SAHEL

As Table 2 shows, there are three basic kinds of productive operators in the subsector in all three countries: tanners; leather workers (known as *maroquiniers*), who specialize in bags and other leather work; and shoemakers, who specialize in shoes and sandals. It is important to note that there is almost no overlap between the shoemakers and the *maroquiniers*. Although there are many similarities across the three countries, there are also some important differences.

Tanners

Tanning is a traditional activity in all three countries. It is done using traditional methods, usually ten skins at a time. Some regions are known for their particular tanning skills (Gao, Mopti, and Bamako in Mali; and Kaya and Pouytenga in Burkina Faso) and raw skins are often brought into those areas by traders. The tanning concentrates on goatskins and sheepskins because these are easier to manipulate.

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[3] Because the exports can be documented, they provide to the owner officially recognized hard currency, which the owner has greater possibility to use than black market hard currency.

In general, the artisanal tanning operations are single-person activities, though there may be some coordination carried out by traders. However, one often finds many tanners working side by side in the same location — each person working his own skins — because they have the same requirements for the process. This allows them to look after one another's skins during the drying process. In only a few cases were tanning activities identified in a more organized fashion, particularly in northeastern Burkina, where a group of women tanned skins for a man who then marketed the skins to traders.

The techniques used are very similar across the region. There are some small differences in the composition of the tanning solution, depending on the flora of the region or the availability of certain minerals. The highest quality skins in Burkina come from Kaya, where tanners add ash to the solution. So, even though the tanners do not work as part of the same operation, their reputations for quality attached to particular regions are still maintained.

Leather Workers

Across the region, one finds three distinct stages of organization among leather workers (*maroquiniers*): the nascent enterprise (workshop), the individual, and the family operation.

Workshops

Workshops are groups of artisans working together, usually led by one principal artisan who has achieved a certain reputation in the field. The groups may or may not be from traditional leather-working families — in fact, several of the most productive ones have begun only in the last ten years. These are the most visible artisans who command some name recognition. The principal artisan provides the locale and most of the resources and orders for the other artisans working with or for him, paying them on a per-piece basis.

Individuals

Individuals in the trade cover a wide range of actors, from itinerant Tuaregs manufacturing sandals for the tourist market, to the semi-stable artisans who produce and try to sell the product themselves to get the resources to produce the next batch. They rarely have a formal place to work — working by the side of the road, in a market, or in their house. When they finish a good, they take it to the market and try to sell it directly. If they have no luck, they will sell it to a merchant; some have stable supply relationships with merchants. These individuals are often trained by the higher quality artisans and then set out on their own. Most would aspire to the higher end of the market, but they have neither the resources nor the recognition required to reach it.

Family Enterprises

Apart from the workshop and the individual is the family enterprise. This is often a traditional operation found in the far north or in isolated villages. These operations run along caste lines. Their

principal product is sandals,[4] produced by the men, but the women also do leather work, specializing in making poofs and cushions. Though it is a family activity, each member works for himself, collecting his or her own orders or manufacturing his or her own product, with subsequent responsibility for marketing. Although in a common work area, the supplies belong to individual household members. Only in the event of a large order do individuals pool their efforts.

The Tuareg provide an interesting contrast to the above cases in leather work. Unlike other groups who specialize in one product or another (tanning, *maroquinerie*, or shoemaking), the Tuareg often work as family units, with both men and women participating, and produce a wide variety of products: boxes, sandals, and swords. The women often tan the leather and work on the finer points of finishing, while the men do the heavy work (on thick leather, box frames, and metal for swords) and then market the goods. The Tuareg can be found throughout the region.

Shoemakers

Shoemaking concentrates on practical footwear — shoes and heavy duty sandals — and should not be confused with light tourist footwear. The shoemakers (*cordonniers*) generally require a higher level of investment than *maroquiniers* since they require a large number of shoe forms. Fortunately, these shoes forms can be acquired.

Shoemaking has caught on only recently in the Sahel countries, since it is not traditional to wear closed shoes. Much of the technology and skills are transferred from neighboring coastal countries (by small Ghanaian artisans moving to Burkina Faso or Niger) or from personnel trained by the few industrial shoe manufacturers that have gone bankrupt.

The small artisanal producers across the three countries suffer from problems of quality that make it difficult for them to compete with imports. Even the manufacture of shoes from reptile skins — a high end of the business — is limited because the small artisanal producers are restricted to a local market.

ENTERPRISE DYNAMICS

The closing of the shoe factories owned by the Bata company has opened opportunities for MSE shoemakers. Shoes are the one leather-based product for which there is steady demand, though now it is facing severe competition from plastic shoes. Although other businessmen have tried to replace the industrial capacity of Bata, the markets are not there to make it viable. Many small enterprises are filling the gap in Ouaga, largely consuming locally tanned skins. In Mali, also, there has been a slight increase in shoe production since the Bata imports have dried up.

The best example of a successful small enterprise taking advantage of this opportunity stems from one of the shop foremen for Bata, who opened his own small shop with two skilled workers from Bata and $7,000 investment in used equipment. The two workers produce about $5,000 worth of Bata-style shoes per month, which compete very well on the local market. The fact that these workers were

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[4] Although sandals may be considered footwear, they fall more into the category of maroquinerie because of the styles and decorations used. In addition, the working styles of those making just sandals are not comparable in any way with the cordonniers, discussed below.

professionally trained has a large impact on their ability to produce the quality shoe needed in the up end of the market. This production is just for the local market.

Tanneries can have a very positive effect on MSEs. Shortage of quality leather is a major constraint in Burkina and Mali. In Burkina Faso, the small shop producing industrial quality shoes is dependent on the tannery for the quality of leather and the industrial finish needed for its production technology. Many of the small shoemakers said they preferred the SBMC leather to the locally tanned leather, even though it was more expensive, because of the difference in quality. All the shoemakers imported their components (soles, rivets, and forms) for the shoes.

The economics of industrial tanning present a problem. The tannery in Niger, SONITAN, produces only small quantities of finished leather, and then only when it gets an order big enough to make it worthwhile. Since there are no leather workers in Niger who can use a lot of leather, most orders are for export to countries such as Senegal or Côte d'Ivoire. Therefore, there is rarely any industrially tanned leather available for local sale.

Industrially tanned leather is less important for traditional leather workers than it is for shoemakers, but if leather workers were to produce in bulk for export, they would need improved quality on a consistent basis.

There are possible links into the export market that need to be explored and exploited, but they revolve primarily around the tourist products desired in the coastal countries. Linkages need to be created to communicate the product niches available to producers in the Sahelian countries. The large-scale traders who handle the trade of locally tanned skins can be the best source of this information.

There are key actors in each country who dominate the market for traditionally produced goods. In Burkina, these are the major traders in tanned skins; in Mali it seemed to be a few key leather workers. Any action in these countries must include these participants.

SKILL TRANSFER AND GRADUATION

There is some graduation among the *maroquinerie* firms from the individual to the workshop. The family enterprise rarely shows any potential for growth beyond the family framework. Given the very few workshops that have reached a stage of consistency and that show the potential for growth, we observe two principal characteristics in the most successful ones: higher skill level and greater entrepreneurial dynamism. The more successful shops have better skilled people, who usually come from outside the country or have significant exposure to external influences. An important jump in quality or technique is often required to differentiate products, and this can be attained only outside the country or with long training and apprenticeships.

The second element, entrepreneurial dynamism, is often more difficult to find. The thread that keeps the skilled workers together in a productive unit is usually one individual with the drive to make it work. Usually the most skilled worker and the founder of the workshop, this individual has usually added additional workers to meet the demand for the product. As the enterprise grows, his role necessarily switches over to more management tasks and fewer productive tasks. This is very difficult for many older artisans to accept, although more of the dynamic younger ones appear to be picking up this skill. The shortage of these skilled workers who are capable of making their enterprises grow is a sizable constraint.

Since these are all first-generation workshops, usually younger than ten years old, there has not yet been occasion for them to experience the effects of generational transfer. It is impossible to tell what benefits might accrue from the education of the children to improve the functioning of the workshop.

SECTION THREE

SKINS AND HIDES IN LESOTHO

Like the Sahel countries, Lesotho is largely rural, and more than 50 percent of the families raise their own animals. Surprisingly, there is no tradition of tanning and leather goods production in Lesotho. In fact, despite the fact that so many people have animals, very few skins and hides are actually collected, and those only from the formal butchers.

TABLE 3

LESOTHO LIVESTOCK OFFTAKE
(in thousands)

	Flayed Animals	Skins/Hides			Production from Butcher	Total Marketed
		Sold	Consumed	Lost		
Cattle:	70	6	38	26	12	18
Goats:	88	7	47	35	0.6	7.6
Sheep:	155	10	51	95	65	75

Table 3 shows the large variance between skins and hides available and those actually marketed. In Lesotho, the skins trade deals only with sheepskin, not goatskin, despite the slaughter of about 90,000 goats per year. The drop in the world market for sheepskin has seriously limited the market for Basotho skins.

A primary difficulty facing a rural farmer is the need to register a hide or skin before it is sold, an act which is often more hassle than it is worth, particularly if the farmer slaughters the animal himself. As a result, the trade is dominated by the skins and hides available from the butchers, who legally register them at the time they purchase the animal.

SMALL MANUFACTURERS

There are two principal kinds of MSEs working in the skins and hides subsector in Lesotho: about 125 micro- and small-scale shoe and sandal workshops, employing about 300 people (between one and seven people per enterprise); and 50 women, producing articles made from hair-on sheepskin for the tourist trade.

Most micro- and small-scale enterprises producing shoes and sandals in Lesotho have developed since 1985 and rely on imported leather (cowhide) for their basic raw material. The primary product is the roman sandal, which is worn mainly in the warm months. The entrepreneurs must usually travel to the Republic of South Africa (RSA) to buy the saddle leather for the soles.

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One can distinguish between the microenterprise operations and the small workshops, with some evolution from the former to the latter. The microenterprises work in the markets or on the streets, paying 1.5 to 5 maloti per month to the market master for space, depending on whether the space is covered. This amount also serves as tax. The microenterprises make only sandals and employ three or fewer people.

The dozen or so small workshops in the country employ between five and ten people and make shoes as well as sandals. Usually, the owners are skilled craftsmen who have learned their trade in another country. They have graduated from the microenterprise size to the small workshop and are taxed differently by the government, which requires them to buy a license for between 30 and 50 maloti. In addition, they pay substantially more rent, since they need more space than in the market. By diversifying into shoes, the workshops have been able to develop a smoother flow of sales over the year.

There are two medium-sized firms in the country, in total employing about 90 people, but they face many difficulties in getting necessary supplies and in developing the markets for their products, which are mainly sheepskin based.

A relatively thriving industry in Maseru (not witnessed in any town other than Maseru) is the individual manufacture of sheepskin and other leather handicrafts from the offcuttings from the medium-sized companies, described below. More than fifty women are involved in this activity, buying bags of cuttings and then sewing the pieces together to make hats, slippers, bags, and carseat covers. It is, essentially, the only utilization of sheepskin at the microenterprise level in the country. This is a new industry in Lesotho that began after the opening of the original tannery (Maluti Sheepskin Products) in 1975. Although many of the goods produced by these women are for the tourist trade, the sheepskin products are largely purchased by Basothos for local use or for taking to the mines in bundles of 10-20 for retail sale.

Constraints to MSE Development

On the productive side, the limited availability of quality leather is a constraint. The sandalmakers, who are the most dynamic leather-working MSEs in Lesotho, must travel to the Republic of South Africa to purchase small quantities of saddle leather — their principal raw material — used for the soles and straps on the roman-style sandals. The sandalmakers, however, face severe competition from industrially manufactured shoes from the RSA and from within Lesotho. It remains a niche market at best.

The tannery that had tanned hair-on sheepskins, primarily for use in the manufacture of sheepskin seat covers, closed in 1989, mainly because of bad management. This eliminated the primary source of raw material for as many as 300 women-run MSEs in Maseru that used cuttings to manufacture hats and other articles and used full skins to make seat covers. Now only about 50 women remain in the business.

The large-factory dynamic is also at play in Lesotho, from another perspective: the large export-oriented factories provide contract labor and training for hundreds of independent workers.

SIMILARITIES AND DIFFERENCES BETWEEN THE REGIONS

Despite the great physical and cultural distances separating the Sahelian countries and Lesotho, there are more similarities than differences in the development of their skins and hides subsectors.

Marginal Materials

One extremely important characteristic governing the entire subsector is the availability of the raw material: the skin or the hide. The trade of skins and hides is affected greatly by the relatively low value of the skin compared to the other uses of the animal. The animal serves as a store of wealth, source of fertilizer, and provider of milk while it is alive. When it is slaughtered, the value of the meat is often ten times the value of the skin at slaughter. These factors make the skin or the hide a marginal product for the owner over the life of the animal, subject to many factors that can reduce the value of the skin as a product for further processing. Raw skin prices play only a small role in the decision of the small producer on whether to market his resource. Nonetheless, that decision has a large impact on MSEs that process skins and hides.

Limited Supplies and Markets

Livestock plays an important role in both cultures, but the two regions have developed very different internal productive sectors. In Lesotho, there is no tradition of a productive skins and hides sector, whereas in the Sahel, tanning and leather working have been traditional economic activities for centuries. Under these circumstances, one might have assumed that the Sahel would have developed its skins and hides industry. However, both areas are now encountering similar constraints to bringing this sector to economic fruition.

As noted above, all four countries have small internal markets (hence, they are dependent on exports), have relatively small quantities of product for sale (on world market terms), and have always been price takers rather than market makers. It is these market conditions — along with individual government policies — that have dominated the development of the industry rather than the possible expansion of a traditional industry.

The Sahel has also not fully developed its potential as a regional producer of skins and hides. Despite physical proximity, common languages, common currency, and traditional trade ties, the Sahel countries have not been able to develop the joint economic initiative necessary to make the skins and hides sector a viable industry in the Sahel — relegating it to a minor economic role in spite of its potential. It is possible that, if market forces were not hampered by nationalistic policies, the private sector would organize to make better economic use of the skins and hides within the region, taking advantage of some of the economies of scale which could be available.

Response of Skins and Hides Trade more to Market Incentives than to Policy

In the Sahel, raw skins and hides flow informally across the borders with little to stop them. Section Two demonstrates how Burkina Faso ends up with more skins than it produces, mostly coming from Mali and Niger, and it is well documented that Nigerian buyers informally import many of Niger's

skins. Meanwhile, in Lesotho, most skins flow across the border to South Africa — formally and informally — where the industrial tanneries use them.

In the Sahel, this demonstrates the regional integration that exists, on the informal level, to respond to market opportunities in spite of government policies to develop local industry. This also shows that there is less waste in the trade of skins and hides in the Sahel than many might believe. In Lesotho, the absence of market opportunities for herders in the interior does lead to the loss of 60 percent of available sheepskins and goatskins.

General Lack of Trade Coordination

The driving force behind skins and hides trade as a major economic activity is the international demand for the raw material to be processed into leather for use elsewhere. This usually consumes the greatest portion of the available skin supply (and note that without industrial tanneries, the use of hides is negligible).

In only one of the four countries studied is there a well organized and coordinated skin collection and export system: Burkina Faso. In each of the other three, the collection system has collapsed primarily because of bad management of the system, which is dependent on a capital-intensive collection system.

It is interesting to note that Burkina is, apparently, also the country with the most dynamic MSE population, where the quantity of tanned skins is greatest, and where the traditional trade of skins remains well developed. Burkina exports finished products to the coastal countries — often in a barter relationship for wood artifacts from the coast — and deals in artisanally tanned skins.

Limited and Competitive Markets for Finished Leather Goods

The major constraining factor in all the countries studied is a small local market for the finished products. The artisans making handbags and other leather goods are not producing the quality and quantity necessary to develop an export market. Artisanal shoe manufacture also is severely constrained by competition from large manufacturers of cheaper — in price and, often, in quality — leather shoes and the invasion of the plastic shoe.

Since most leather goods are largely tourist oriented or target the luxury market, the four countries studied will remain with very tight markets because they have relatively few tourists and local purchasing power is low. Therefore, any significant expansion in the subsector will have to come from increased production of articles for export.

Major allies for this endeavor in the Sahelian countries are the traders of traditionally tanned skins. They are often in contact with users of traditionally tanned skins in other countries and may be able to bring back new ideas and establish the trade relationship with the export markets.

Importance of Dynamics and Linkages between Large Firms and Small Firms

Important interactions occur between small and large firms in the productive side of the leather goods subsector, in particular tanneries and shoe factories.

The tannery often turns out to be the missing link that greatly hurts the development of a long-term leather goods industry in three of the four countries studied:

- **Burkina** is the only country where the tannery really survives from a cross subsidy provided by its parent firm and where finished leather is regularly available in small quantities to the MSEs for processing.

- **Lesotho** was getting a finishing plant in 1990 that could provide a higher quality of leather, but its target was for export. When the sheepskin tannery closed there, it eliminated an important supply of raw material for the two medium-scale firms in the country and eliminated the source of supply for hundreds of women microentrepreneurs.

- **Niger** and **Mali** do not have regular access to the quality of leather needed for long-term development of shoe and leather goods product industries.

The key question is whether it is financially viable for tanneries to operate on the scale required by the small amount of input available. This raises important questions on the appropriate scale of the tanneries: would additional product improve their viability? If so, this implies the need for regional- rather than national-based tanneries; are there smaller scale tanneries that can produce the quality leather needed in smaller quantities and still be profitable?

Shoe factories can play two major roles which affect the dynamics of MSE development in the long run: they serve as a training ground for staff and, if they fold, as is the rule in the Sahel right now, they leave a void which MSEs can fill. In Lesotho and Burkina, the two countries that had large factories, the most dynamic small entrepreneurs with businesses showing prospect of growth are former employees of the large producers and had been trained outside their countries. This demonstrates the importance of the skills in the start-up of competitive small-scale activities with potential for growth. In the long run, however, we must address the question of economic competitiveness in the face of relatively high costs of labor in these countries.

Limited Skills, Limited Products

While there are some highly competent leather workers in all the countries, their number and the range of products they produce are limited. A strong push is needed to increase the number of qualified producers who understand the quality of articles needed to supply the export market. These producers need to be closely linked to the market to understand what it needs.

In Lesotho and Burkina, it was noted that many of the strongest productive MSEs had benefited from formal training through government, mission, or private programs. Expanding the productive capacity will require a focused approach to improving the skill levels at low cost. Is this possible — and is it worth the effort?

SECTION FOUR

PROSPECTS FOR OVERALL GROWTH IN SKINS AND HIDES AND IMPLICATIONS FOR MSEs

As we have seen, the skins and hides subsector in the Sahel is dominated by informal MSEs that function by using traditional methods of operation. The formal sector, formerly dominated by large state-run industries, has not succeeded in developing a viable activity and has, in essence, collapsed in West Africa. Is this a growth subsector or is it in a stable or declining mode? Do MSEs represent the future source of development for the subsector? Does this mean that MSEs have a competitive advantage in skins and hides? These are the hard questions donors should answer when programming assistance to MSEs.

The formal trade of skins and hides has been declining in most countries of the Sahel over the past few decades, but there are still plenty of skins crossing the borders to the points where prices are highest (Nigeria and Burkina Faso). There is some potential for generating more short-term revenue, from a more efficient trade, than is currently being generated.

MARKET PROSPECTS

The long-term growth of the skins and hides subsector is limited by the numbers of sheep and cattle slaughtered locally, either for consumption of meat (with limited growth potential) or for export of the meat (unlikely to happen in large quantities). There is some potential for increasing the efficiency of the subsector to capture greater benefits. A realistic look at the markets for processed leather goods reveals three principal markets:

- Small locally consumed items, using artisanally tanned skins, which are in demand because they are cheaper than imported goods and fall within the price range of the local consumer. While this may be a growing market in the short term while the overall economy is weak, it is not a growth market in the long term.

- Substitution for imported industrial goods, primarily shoes, is the largest potential growth market. But these shoes require different raw materials and improved quality.

- Tourist/handicraft articles have a small internal market (there are very few tourists in the Sahel countries — measured in the tens of thousands, rather than the millions that flow to Kenya), but it is not a large growth market, because the local products are never able to compete on a quality basis on the international market, where goods must have higher quality leather.

The greatest opportunity for growth is in increasing the value added, through tanning or production of finished goods — for example, shoes, sacks, and jackets.

MSEs AND SUBSECTOR DEVELOPMENT

If there is to be any long-term development of the skins and hides subsector, it will have to come from the formal sector. The quality of the artisanal product is too low for mass sales and the products do not enjoy a niche in the world market that might allow it to capture many more benefits. The quality can be improved and there is some potential for providing assistance to individual small producers, but the prospects for the traditional producer are limited.

MSE COMPARATIVE ADVANTAGE

As noted in the analysis, there are a few firms able to compete profitably against imported products, particularly shoes. These firms are small and are able to produce a quality product for less than the larger industrial firms (which have all failed in the Sahel) and, therefore, represent an opportunity for growth. At present, there are only a handful of producers and they require a quality raw material, which usually must come from industrial tanneries found in the coastal countries or in Burkina Faso.

Therefore, the long-range opportunities for MSEs to move into the growth segment of the market should focus on shoes. When small firms (1-2 employees) have proven competitive over large industries in shoe manufacture, they have used industrial technology and industrially tanned leather.

Overall, opportunities for MSE growth in the subsector are fairly limited. Donors and local governments should take this into account when designing their programs and, initially, should seek to invest time and resources where there is the greatest return — in the trade of skins and hides and, if appropriate, in small tanning operations to provide artisans with the quality leather that is the prerequisite for developing an export market.

SECTION FIVE

IMPLICATIONS FOR GOVERNMENT POLICY MAKERS AND PROJECT OPERATORS

DEVELOPING A VIABLE INDUSTRY IN THE SAHEL

Two issues emerge from the analysis of the skins and hides subsector in the four countries:

- Developing the trade of raw skins and hides is the foundation point for the industry but is extremely difficult to manage; and
- The prospects for growth among MSEs is limited in the near future, but there may be potential for growth in the long run.

Development and Management of Skins and Hides Trade

The official trade of skins and hides has collapsed in Mali, Niger, and Lesotho. Only in Burkina Faso has it continued to grow, probably with significant quantities of skins from Niger and Mali. Poor management on the part of the state was the initial problem in Niger and Mali, but the subsequent release of floundering state-run operations to an ill-prepared private sector damaged them further. In Lesotho, poor management of the tannery and of collection badly wounded the trade.

Raw skins and hides flow informally across the borders of the Sahelian countries, with little to stop them. They are not highly perishable, are easy to conserve and transport, and can be shipped in small quantities. This allows them to move easily about the country, as well as across borders.

Most of the Sahelian governments have recognized the potential for the value added that turning raw skins and hides into leather can bring. They have instituted policies to promote industrial processing of the skins and hides and have financed and favored local tanning operations. Yet the record of these policies and investments is abysmal. Thirty years after the initial investments, the only country that maintains any real industrial capacity is Burkina Faso, and that is by the grace of its international partner.

Government policies have been ineffective because they have not addressed the fundamental reality of their product or recognized the market for their goods. In order to promote the industrial processing, all three countries instituted low producer prices for the raw skins and hides, to enable the tanneries to become profitable. The result was the opposite of the intent. The raw material, which had a higher price on the world market than in its countries of origin, flowed toward those processing plants that transformed them more efficiently, in Europe, Nigeria (for the case of Niger), or South Africa (for Lesotho).

While small operations can be set up for local sales, it is unlikely that the countries of the Sahel will ever have the quantity of minimum-quality skins necessary to take the processing beyond the wet blue phase of tanning. The quality of leather demanded on the world market requires a significant investment in equipment and skills that is not justified by the quantity of skins available unless the operation could capture the output of the entire Sahel in one plant.

Policy makers should start with the first step: creating an environment conducive to the development of the basic trade of raw skins and hides. This will build the industry properly from the bottom up. This is not an industry the state can control, but the state must make sure that all policies reflect market incentives.

Prospects for Short-Term and Long-Term Growth among MSEs

The constraints facing productive MSEs are great. Their internal markets are very limited. Their quality is generally fair to poor, because of low skill levels and poor quality of the locally tanned leather, the principal input. It is unlikely that this will become an important growth sector for the economy, because skins will remain in fairly limited supply (as dictated by the numbers of slaughtered animals).

On the domestic front, shoe production faces stiff competition from imports with similar or higher quality or from substitutes, such as plastic shoes. The shoemakers' costs are relatively high compared with imports from the coastal countries or from Southeast Asia.

World markets are increasingly complex, and the nature of the small enterprises makes it impossible for them to increase their sales directly. The marketing skills of the small enterprises are non-existent.

Several long-term solutions are possible. If these are not explored, there will be little hope for increases in the scope of the MSEs involved in this area. The solutions highlighted below seek to achieve the greatest amount of leverage for a proposed investment. They identify areas where the local NGOs and projects should direct their efforts to have greater impact.

1. **Improve market coordination.** Improve the linkages between the trading firms and the producers. This will improve the possibilities at the domestic level (perhaps eking out additional market share) and will open up some options on the export front. This will not happen without some direct assistance from outside the countries. This cannot be mandated by the state. There must be financial incentives for all parties concerned.

   One good place to start is with the local skins traders and middlemen. The bigger ones have the greatest exposure to the local craftsmen and new markets. The skins traders and middlemen often supply skins on credit to craftsmen and have contact with markets in other countries, and can provide the most accurate appraisal of the individual artisan's capabilities. Working closely with the traders to improve linkages within the MSE community will yield the greatest immediate benefits for the enterprises as a whole.

   At the larger scale, the experience from Burkina Faso is a good one to observe: successful linkages of the skins trade and tanneries to foreign firms can improve market coordination and create a more dynamic local industry as a whole. Foreign firms, such as the Société Européene des Peaux, are more closely tied in to the final markets for the products and can usually get a better price for the products.

2. **Resolve the leather supply problem.** The shoemakers and the *maroquiniers* need higher quality leather if they are eventually to compete on the world market. Without industrially tanned and finished leather, this competition will be impossible in shoes and very difficult in quality leather goods. Two obvious solutions exist: produce it locally or import it.

Producing industrially tanned and finished leather locally is the preferred solution if it is possible. Either an appropriately sized local tannery must be found or someone must set up a successful regional tannery that plans to supply the local markets in addition to exports. It is likely that some mix of semi-tanned (wet blue) and finished leather will be required.

The other choice is to import high-quality leather from Ghana or Nigeria. These Anglophone countries tan their own leather (Nigeria in tremendous quantities to earn foreign exchange), but the trade links have not been well developed between these countries and the Sahelian ones; the small local Sahelian demand has not made it worthwhile. If the supply issue is not settled, then there will be little hope for establishing a successful export trade.

3. **Facilitate skill transfer.** The most successful and competitive small enterprises are run by skilled personnel who have had exposure to outside processes and training or have had prolonged apprenticeship mixed with some modern organizational skills. They are few in number, but produce good quality products. The MSEs will be able to produce a sufficient quantity of quality products only if there are more personnel with the necessary skills.

   Large factories have proven excellent training grounds for small entrepreneurs, and it may be possible to organize technical training programs within them. One of the most underdeveloped skills is marketing, which severely limits the capacity of the enterprises to grow. New techniques will need to be developed for improving skills at low cost.

   Another option, not yet explored, is to arrange exchange programs to place skilled Sahelian artisans in European firms for several months. This will allow them to refine their skills and to observe firsthand the techniques and quality required to compete in international markets.

These long-term efforts need to be addressed simultaneously if there is to be a successful resolution. The regional similarities of the MSEs and entrepreneurs, as well as the current regional linkages in the trade of skins and hides, provide important points of contact for the development of solutions to these issues. Groups such as the CEAO have already been working on the questions surrounding setting up regional tanning industries, but they have not focused enough on the private development of such industry.

Given the large amount of resources that might be required to accomplish anything in this sector, the donors and governments must set priorities and examine the long-term benefits to any investment.

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