



CHEMONICS INTERNATIONAL INC.



Subsector Assessment of the Nigerian Hides and Skins Industry



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FOREWORD

Under the Rural and Agricultural Incomes with a Sustainable Environment (RAISE) IQC, Chemonics International and its Agricultural Development Assistance in Nigeria (ADAN) project are working with USAID/Nigeria and the Government of the Federal Republic of Nigeria (GON) to stimulate Nigeria's economic growth through increased competitiveness in the world market. A key component of this effort centers on determination of specific agricultural products with the greatest potential for increasing foreign exchange and employment. ADAN specifically targets increased agricultural commodity production and exports, and seeks to boost domestic sales as well through opportunistic 'fast track' activities, which are loosely based on development of networks and linkages to expedite trade.

At a stakeholders' conference in Abuja, Nigeria in January 2002, participants identified five Nigerian products that held the greatest potential for export growth. Chemonics was charged with conducting subsector assessments of these products, and then developing industry action plans (IAPs) for those that indicated sufficient market opportunities.

The following subsector assessment examines market trends, opportunities and constraints, both international and domestic; production and processing requirements; operating environment issues; and makes recommendations to address the needs of the Nigerian industries. A separate IAP provides a strategic framework for actions the Nigerian and international private sector, Nigerian government, and donors should undertake to improve the viability of these industry clusters.

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EXECUTIVE SUMMARY

Long-term neglect of the leather products industry in favor of oil production has left Nigeria behind the pack in competing for a global market worth \$72 billion. Increases in disposable income are fuelling the international demand for high quality leather shoes, jackets, handbags and upholstery, a market which is growing steadily at 3% per annum. Developed countries, despite the fact that they are the major consumers of finished leather products, export the bulk of raw hides traded globally to developing countries for processing.

These value-adding developing countries, who are unable to keep up with the demand for tanned leather and finished leather products, are constantly seeking new sources of supply and are looking to West Africa as a potential source. With long-term investment, Nigerian stakeholders can potentially share what may develop into a \$104 million market for Nigeria over the next ten years. This increased market will be accompanied by a substantial increase in the industry's employment level.

Table 1: Potential Income Generation from Export of Leather Products

Sector	Base yr (2003)	2 yrs (2005)	5 yrs (2008)	10 yrs (2012)
Leather products (export)	\$35 M	\$50 M	\$90 M	\$140 M

The leather products industry, from raw materials (animals, hides and skins) through to the manufacturing of various leather products (shoes, handbags, upholstery) has tremendous potential to generate foreign exchange and create employment, especially for women, throughout Nigeria. Nigeria already has a thriving export market; the skin of Nigeria's Red Sokoto goat commands a premium in the international market, especially from Italy. All of the resources for tanning and producing leather products are available locally, including a large domestic and regional animal population. With strategic utilization of these resources, Nigeria could greatly increase their market share of the global leather and leather goods market.

Nigeria faces several challenges to improving its leather production and processing industry. An example of the need for improvement is found in the shoe market. Nigeria imports close to 20m pairs of shoes annually despite its manufacturing capacity which could meet local demand and even produce export products. Nigeria also has a prosperous local food market for raw hides and skins, called "Ponmo," which is considered a delicacy. Currently the demand for "Ponmo" competes and wins against the demand for tanning, receiving 5 times the price for products with fewer quality demands.

In order to fully utilize its manufacturing capacity for leather products, the manufacturing industry needs more sources of quality inputs. Traditionally, Nigerian hides and skins destined to become leather have been exported raw for processing elsewhere, and local industry now needs a change to more local tanning and leather preparation. What hides and skins are tanned locally tend to be of poor quality, and the limited high grade leather that is produced is almost exclusively for export. The poor quality of hides and skins is caused by a confluence of factors, including poor livestock husbandry, inadequate flaying and preparation skills, and a lack of grades and standards for branding. Grazing nomad herdsman produce cattle and rural women rear 90% of the sheep and goat

production in their homesteads. For employment generation purposes, there are commercial opportunities in every aspect of the hides and skins production and transformation industries.

In order to compete in this billion-dollar industry, the Nigerian leather sector must transform itself from a producer and exporter of semi processed hides and skins to a producer of leather products for both domestic and export markets. Such a transformation would require four initial activities upon which to build any initiatives:

- 1.) Detailed feasibility study - domestic market & production
- 2.) Increase the volume and unit value of animals, semi processed hides and skins and leather products
- 3.) Awareness campaign on the opportunities in the leather industry
- 4.) Establishment of a Commodity Business Bureau (CBB)

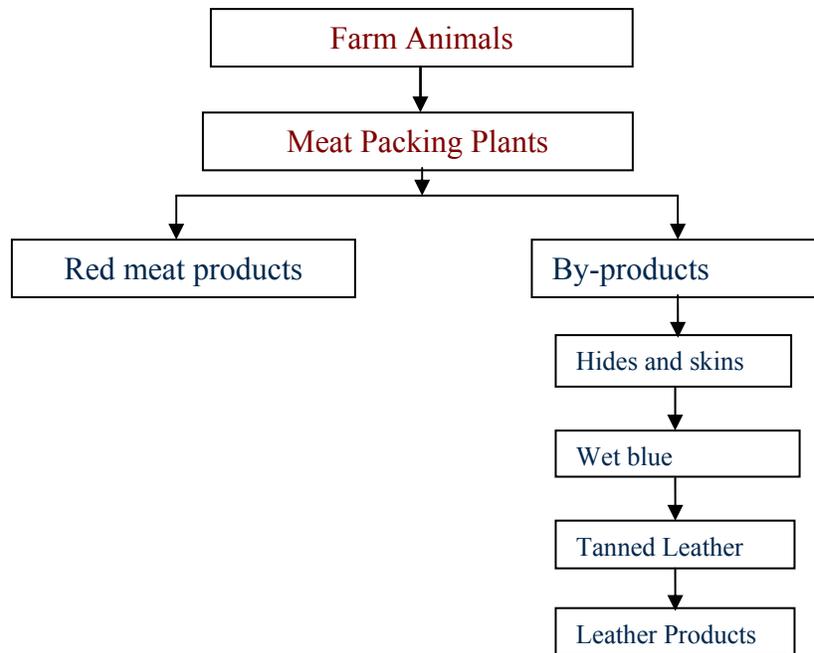
Increases in the volume and value of Nigerian leather may come through individual endeavors, but for the industry to succeed as a whole, leather stakeholders - including producers, processors, exporters, financiers, and others - must receive technical assistance on several different levels. In the long-term, this assistance would come through a Commodity Business Bureau (CBB) that would ensure sustainability of the industry's efforts. In the immediate term, however, another mechanism must be found. In Nigeria, this would be through several highly organized trade associations. The trade association would arrange initial dissemination of information and training while the CBB is being developed. Once the CBB is developed, it would take the burden of providing higher-level coordination and provide technical assistance to the trade association, while the trade association would be able to focus more on firm-level assistance and industry marketing efforts. The CBB would eventually expand to provide assistance for other agricultural industries, achieving economy of scale.

I. THE INTERNATIONAL HIDES AND SKIN INDUSTRY

A. Introduction

Although hides and skins are primarily produced as by-products of the meat packing industry, the international trade in skins, hides and leather is more valuable than that of meat. The hides and skins are processed into finished leather, which is then converted into footwear, garments, furniture, vehicle upholstery, etc. These products have both household and industrial applications. In the footwear industry, finished leather is used for shoe uppers, linings and soles. It is also used extensively in the production of belts, various types of bags, home/office decorations and fittings, etc.

Figure 1: Industry Overview of Hides and Skins Processing Chain



The traditional source of hides and skins are farm animals, which are reared for meat, milk, or wool. Hides come from bovine animals (cattle, oxen, etc.) while skin is obtained from ovine and related animals (sheep, goats, etc). Three major products are obtainable from these by products: dried or wet salted raw hides/skins, wet blue and tanned leathers. The hides and skins are preserved using either the industrial process of (chromic acid) tanning or the traditional brain or bark tanning technology, which is quite common at the village level. Though brain tanned leathers are acknowledged as the best in terms of quality, industrial tanning is the most common as it is cheaper and less time consuming. The byproducts of industrial tanning are highly toxic to the environment. Since hides and skins are by-products of the meat packing industry, the level of production of hides and skins depends on the level of demand for red meat. Other factors influencing availability of hides and skins are consumer income, population, and productivity of the livestock industry. The impact of these various factors results in large price fluctuations for hides and skins.

B. Animal Production

Developing nations account for the majority (over 70%), of the world's cattle, sheep and goat population with the Far East leading as the major production region (see Table 2).

Table 2: Farm Animal Population Distribution by Continent

Regions	Cattle		Sheep		Goat	
	Number In Million Head	Share %	Number In Million Head	Share %	Number In Million Head	Share %
Developing Nations	1,157	77	660	62	665	96
Latin America	351	23	86	8	34	5
Africa	171	11	158	15	158	23
Near East	69	5	190	18	98	14
Far East	566	38	226	21	375	54
Developed Nations	341	23	396	38	31	4
North America	113	8	8	1	2	0
Europe	105	7	140	13	16	2
CIS (Former USSR)	68	5	55	5	6	1
Oceania	36	2	164	16	0	0
Other Dev. Nations	19	1	29	3	7	1
World	1,498	100	1,056	100	696	100

FAO, World Statistical Compendium for Hides, Skins, Leather and Leather Products (1982 –2000)

As mentioned earlier, farm animals are largely bred for meat production, and the livestock production industry focuses on early maturity, feed conversion, disease resistance, etc, all factors which have a positive impact on meat production in the animal, but not necessarily a positive impact on hide and skin production.

C. Global Trade

The export skins and leather industry is huge, believed to be worth around \$4.4 billion for raw hides and skins, \$14 billion in rough-tanned and finished leathers of all types and \$25 billion for footwear with leather uppers. Over the last two decades, the average growth in trade has been 3% for raw hides and skins, 10% for rough-tanned and finished leathers, and nearly 8% for footwear and leathers. In developing countries, however, the percentage growth in both rough-tanned products and footwear has been increasing at over 12% per year.

In total, developing countries export nearly \$19 billion worth - much more than the major commodities such as meat (\$2.7 billion), rubber (\$3.7 billion), cotton (\$2.5 billion) or coffee (\$10.7 billion).

C.1. Global Trade in Hides and Skins

Global trade in hides and skins has experienced significant increase in demand within the past decade and there are indications that it will continue to grow as disposable income improves

worldwide. Going by FAO figures as of December 1999, the average volume of trade in raw hides and skins was estimated at US\$4.44 billion. Cattle hides accounted for 90% by weight of raw hides and skins production (see Table 3). However, tanners and shoe factories prefer goat and sheep skin for fashion shoe manufacturing. Though the production of goat and sheep skins are currently estimated at 10% by weight of the global total, there are strong indications that demand for goat and sheep skins is likely to grow at well over 5% per annum due to the demand for good quality shoes worldwide.

Table 3: Global Trade of Hides and Skins of Farm Animals Origin

Farm Animal	Numerical Output (millions) Units	Average Unit Weight (Kg)	Estimated Output (Million Metric Tons)
Cattle	314	18.08	5.677
Sheep	520	.75	.390
Goat	325	.72	.234
Total			6.301

FAO, World Statistical Compendium for Hides, Skins, Leather and Leather Products (1982 –2000)

C.2. Global Demand for Raw Hides

Global import of hides was static between 1995 and 1999. The average import volume was 2.2 million tons per annum with Italy, China, and South Korea, making approximately 50% of the imports (see Table 4). The United States, Germany and the former USSR, on the other hand, were the leading exporters of hides (see Table 6). However, more recent export figures from the former USSR have substantially decreased, presumably due to their current economic issues.

Table 4: Major Global Importers of Raw Hides (Wet Salted, '000 Mt)

Major Importing Countries	1995	1996	1997	1998	1999
China	302.8	327.1	333.0	345.6	389.8
Hong Kong	100.2	79.3	63.9	71.4	96.0
Korea Republic	341.9	321.3	323.2	228.9	255.2
Thailand	98.0	97.7	87.3	110.4	111.8
Italy	515.2	523.5	495.2	483.6	434.5
Japan	150.8	130.4	148.3	96.8	107.2
Total Global Imports of Raw Hides	2,216.0	2,242.6	2,301.7	2,175.8	2,218.2

FAO, World Statistical Compendium for Hides, Skins, Leather and Leather Products (1982 –2000)

Between 1982 and 1999, the global trade in cattle hides (wet salted) grew from 1.58 million metric tons to as high as 2.2 million metric tons, representing a 71% increase in trade in seventeen years. However, an annual decline in trade of 0.4% is anticipated till 2005. The cause of this decrease is probably one of supply rather than demand. As noted previously, hides are a by-product of the meat industry and as European and North American consumer preference shifts to poultry and seafood, instead of red meat, there is a reduction in the number of cattle being slaughtered

C.3. Global Supply of Hides

It is quite interesting that the developed countries, despite the fact that they are the major consumers of finished leather products, export the bulk of wet salted raw hides traded globally. The United States, Germany, the former USSR, the Netherlands, etc., are the main exporters of hide worldwide. Apart from Italy, a developed country and a major importer, most of the hides exported end up in developing countries like China, South Korea, Hong Kong, etc, where they are tanned and processed. It is understood that because of difficulties of supply from the former USSR (see Table 5), China and other nations are determinedly seeking new sources of supply including West Africa.

Table 5: Major Cattle Hide Producing Nations (Millions of Pieces)

Producing Country	1995	1996	1997	1998	1999
Argentina	12.9	12.9	12.8	12.3	63.2
Brazil	24.0	25.0	26.2	28.2	28.5
China	26.3	25.3	31.1	33.8	35.0
India	38.4	38.9	39.2	38.9	39.4
United States	37.3	38.6	38.1	37.1	37.6
Former USSR	38.5	34.8	32.5	29.8	28.9

FAO, World Statistical Compendium for Hides, Skins, Leather and Leather Products (1982 –2000)

Approximately 40% of the hides produced worldwide are processed into shoes. Apart from domestic sourcing of hides by Asian and some Latin American countries, they still import hides from the developed nations to meet international market demand for shoes and leather products (see Table 6).



Figure 2: Typical feedlots, which supply healthy and well-fed farm animals to meat packing plants.

Table 6: Major Cattle Hides Exporting Nations (Wet Salted, '000 Metric Tons)

Producing Country	1995	1996	1997	1998	1999
Global Export of Wet Salted Hides	2,192.6	2,206.4	2,245.3	2,096.5	2,145.3
United States	776.5	733.7	685.3	570.3	518.1
France	139.6	146.5	150.4	142.8	137.1
Germany	120.2	131.4	124.9	125.0	118.4
Netherlands	107.6	104.2	104.2	75.5	102.3
Former USSR	252.4	248.2	266.7	307.9	329.9
Oceania	84.3	128.1	157.1	139.3	153.4
Australia	46.6	90.6	139.6	109.2	118.0

FAO, World Statistical Compendium for Hides, Skins, Leather and Leather Products (1982 –2000)

C.4. Global Demand for Sheep and Lamb Skins

Global demand for sheep and lambskin grew from 146,900 tons in 1985 to 173,200 tons in 1999, an increase of 18% over two decades (average growth rate of 0.9% annually). This is much lower than the 71% increase within the same period reported for wet salted hides of cattle origin. There are however, suggestions that demand will grow at 5% or more annually in the next two decades due to demand for good quality footwear which are made predominantly of sheep and goat skins. The demand for this product is largely driven by major importing nations such as, China, France, Italy, Turkey, etc. as shown in Table 7 below.



Figure 3: A flock of Dorset breed of sheep on an English farm

Table 7: Major Global Importers of Dried Sheep and Lamb Skin ('000 Mt)

Importing Country	1995	1996	1997	1998	1999
Turkey	47.7	56.5	47.5	51.2	55.0
China	19.2	25.4	23.3	27.7	31.1
France	12.4	10.5	11.2	10.1	8.8
Italy	31.6	26.5	22.1	20.9	22.3
Spain	11.5	12.0	9.8	10.2	9.5
Global Imports	184.0	195.0	171.0	169.0	173.0

FAO, World Statistical Compendium for Hides, Skins, Leather and Leather Products (1982 –2000)

C.5. Sheep and Lamb Skin Global Supply

Developing countries account for more than two-thirds of the world's sheep and goat flocks, and their production share of these animal skins has been projected to expand to more than 80% by the year 2005. This reflects increased productivity, resulting from programs targeted at raising the standard of animal husbandry and efficient utilization of livestock products. Asian countries are by

far the largest suppliers of this commodity and this is expected to continue. Since global production of sheep and lambskin overall has been relatively static between 1996 and 2000 (396,000 tons in 1996 and 394,000 tons in 2000, see Table 8), an increase in market share for developing countries will mean a decreased market share for developed countries if these trends continue. This will probably lead to increased competition in the sector.

Table 8: Sheep Skin Production (dried skin) In Major Producer Nations ('000 Tons)

Producing Country	1995	1996	1997	1998	1999
Iran	28.6	28.6	26.6	28.6	28.8
China	38.5	41.7	39.2	41.9	43.9
United Kingdom	25.4	24.0	20.0	22.1	23.0
CIS (Former USSR)	34.9	28.7	23.7	22.3	21.1
Oceania	85.1	77.1	79.5	81.4	80.7
Australia	39.5	34.7	34.8	37.7	39.2
New Zealand	45.6	42.4	44.7	43.7	41.4

FAO, World Statistical Compendium for Hides, Skins, Leather and Leather Products (1982 –2000)

Analysis of international trade data indicates growth in imports of sheepskin in a number of markets. The estimated global production of this commodity in 2000 was 394,000 tons and export trade value was \$569m. This is slightly above the 1982/84 averages of \$437m but far below the \$1.12 billion average export trade value from 1994-97. Global export trade in this commodity has been relatively slow. The majority of the largest exporters of sheep and lambskins are developed countries, but collectively the developing nations produce the largest volume (see Table 9).

Table 9: Major Exporting Countries of Sheep and Lamb Skins ('000 Tons)

Exporting Country	1995	1996	1997	1998	1999
Iran	25.0	24.5	24.8	23.0	24.0
United Kingdom	19.0	20.5	16.9	20.2	19.7
CIS (Former USSR)	20.2	17.6	13.5	8.9	7.9
Oceania	49.4	55.3	46.5	50.3	61.6
Australia	23.4	29.8	31.5	30.1	38.2
New Zealand	25.6	25.6	15.0	20.2	23.5
World Export Trade ('000 Tons)	178.5	187.5	162.8	160.5	169.4

FAO, World Statistical Compendium for Hides, Skins, Leather and Leather Products (1982 –2000)

C.6. Goat and Kid Skin Global Supply

Global production of goat and kid skin has been growing over the past ten years and continues to grow. World output in 1990 was 188,200 tons and 2000 production was estimated at 242,700 tons. Developing countries accounted for 95% of this output, which is dominated by Asia (168,700 tons), Africa (30,300 tons), and the Middle East (24,500 tons). The output of the developed countries was only 12,000 tons (see Table 10). It is not clear why this is so.

Table 10: Goat and Kid Skin (dry weight) By Major Producer Nations ('000 Tons)

Producing Country	1995	1996	1997	1998	1999	2000
Ethiopia	4.4	4.4	4.5	4.5	4.5	4.5
Nigeria	5.1	6.1	5.8	5.9	6.1	6.1
Iraq	5.8	5.7	6.0	6.2	5.9	5.9
Sudan	6.8	6.9	7.1	7.1	7.2	7.2
Bangladesh	11.9	13.0	13.5	13.2	13.2	13.2
Pakistan	17.6	14.2	14.7	15.3	16.3	16.3
China	39.4	38.4	46.3	53.5	56.1	59.1
India	68.0	69.0	70.0	70.4	71.0	71.3
Global Production	215.9	216	227.1	235.2	239.6	242.7

FAO, World Statistical Compendium for Hides, Skins, Leather and Leather Products (1982 –2000)

C.6. Goat and Kid Skin Global Demand

Demand for goat and kids skin is limited and has declined from 32,900 tons in 1982 to 18,000 tons in 1999; a decline of 45.3% within two decades. Connected to this, the value of export trade in this commodity has been declining over the past five years. Total export trade in 1995 was \$102m and it declined to \$81.4m in 1999. Export trade in goat and kid skin is dominated by the developing countries, which have steadily increased their share of the market from 70% in 1995 to approximately 93% in 1999. Africa accounted for 23% of the value of global export in 1995 and it has increased its share to 28% in 1999. The African export market is dominated by Ethiopia, Rwanda, Tanzania and Burkina Faso. Other major export regions include the Middle East, which contributed 13% of the value of global export in 1995 but systematically increased its share to 23% by 1999. In the Middle East, Lebanon, Afghanistan and Sudan are the major exporting countries. Asian countries' share of the market was 35% in 1995 and increased to 40% in 1999. The Asian export trade is dominated by China and Nepal (see Table 11).



Figure 4: Premium quality leather made of Nigerian goatskin.

Table 11: Major Exporting Nations of Dried Goat and Kids Skin ('000 Tons)

Countries	1995	1996	1997	1998	1999
Ethiopia	2.6	2.2	2.2	2.2	2.2
China	9.6	10.2	7.5	5.1	0.0
Nepal	0.8	0.8	0.9	0.9	0.9
Global Export	23.5	22.9	21.3	17.4	18.0

FAO, World Statistical Compendium for Hides, Skins, Leather and Leather Products (1982 –2000)

Nigeria has been an exporter of sheep and goatskins for decades. It exports goat and sheepskins as well as leather to the EU countries but this has declined significantly even as demand for these commodities continues to rise in other major markets. In China, for example, the value of sheepskin imports has almost doubled from \$180 million to \$330 million within 1998 to 2000, with goatskin imports increasing from \$30 million to \$55 million within the same period.

D. Demand for Leather Products

The world's leather and leather products industry has changed significantly within the past 20 years. Currently, global trade in leather and related products is estimated at \$70 billion. The United States, India, Brazil, China, Italy, and Spain dominate global trade in leather products. The trend in the industry suggests that developing countries, which have the highest number of farm animals, also import hides and skins, which are then finished into various leather products for both local and export markets. These countries, being aware of the economic potential of value added leather processing, have made considerable efforts in developing the industry.

Demand for leather products is on the increase for a variety of reasons, and the increase is projected to continue beyond 2005. The most obvious reason is an increasing level of disposable income in developing nations, and the demand expresses itself primarily through the footwear industry, which is the major end-user of leather. With the majority of leather manufactured into shoes, the demand for leather shoes can be used to determine the aggregate demand for hides and skins. This will continue to be the case, although perhaps not as precisely, as an increasing share of leather is absorbed by other end-uses, such as clothing and upholstery. According to FAO statistics (see Table 12), export trade in leather shoes in 1999 stood at \$25 billion. Exports from developing countries rose from \$1.93 billion a decade ago to \$11 billion by the end of 1999, accounting for 44% of the world trade in leather shoes. On the other hand, Europe's share fell from 75% to 54% and there are indications that it is likely to fall further.

Table 12: Global Trade in Finished Leather and Footwear (1997/99 Average)

Region	Tanned/Finished Leather		Leather Top Footwear	
	Export (\$m)	Global Share Trade (%)	Export (\$m)	Global Share Trade (%)
Developing Countries	7,392	52.1	10,999	44.0
Latin America	1,955	13.8	1,543	6.2
Africa	207	1.5	195	0.7
Near East	34	0.2	101	0.4
Far East	5,196	36.6	9,160	36.7
Developed Countries	6,807	47.9	13,996	56.0
North America	850	6.0	435	1.7
Europe	5,429	38.2	13,488	54.0
CIS (Former USSR)	-	-	18	0.1
Oceania	346	2.4	28	0.1
Others	182	1.3	27	0.1
World	14,199	100.0	24,995	100.0

FAO, World Statistical Compendium for Hides, Skins, Leather and Leather Products (1982 –2000)

The United States is the largest importer of leather products and accounts for about 22.5% of global imports. It is distantly followed by Germany, which accounts for 10%.

E. Supply of Leather

From the figures provided in Table 13, it is clear that Italy, China, Germany, Brazil, UK, Portugal, India and Indonesia collectively control 50% of the leather products export market.

Globally, footwear industries are the major end users; accounting for approximately 36% of leather traded globally, and developed countries account for 54% of global consumption of leather products. Consumers in more affluent societies are placing more emphasis on quality and the strongest growth in demand is in developed countries with long established tanning and leather industries, e.g. Italy, the UK and the US. Higher production costs, due in part to restrictive environmental laws and regulations, have reduced leather processing in the developed countries. In the past two decades, hides and skins produced by developing countries have increasingly been processed to leather prior to export by developing countries.

Table 13: Global Trade in Leather Products, Major Countries (1997: US\$70.44 Billion)

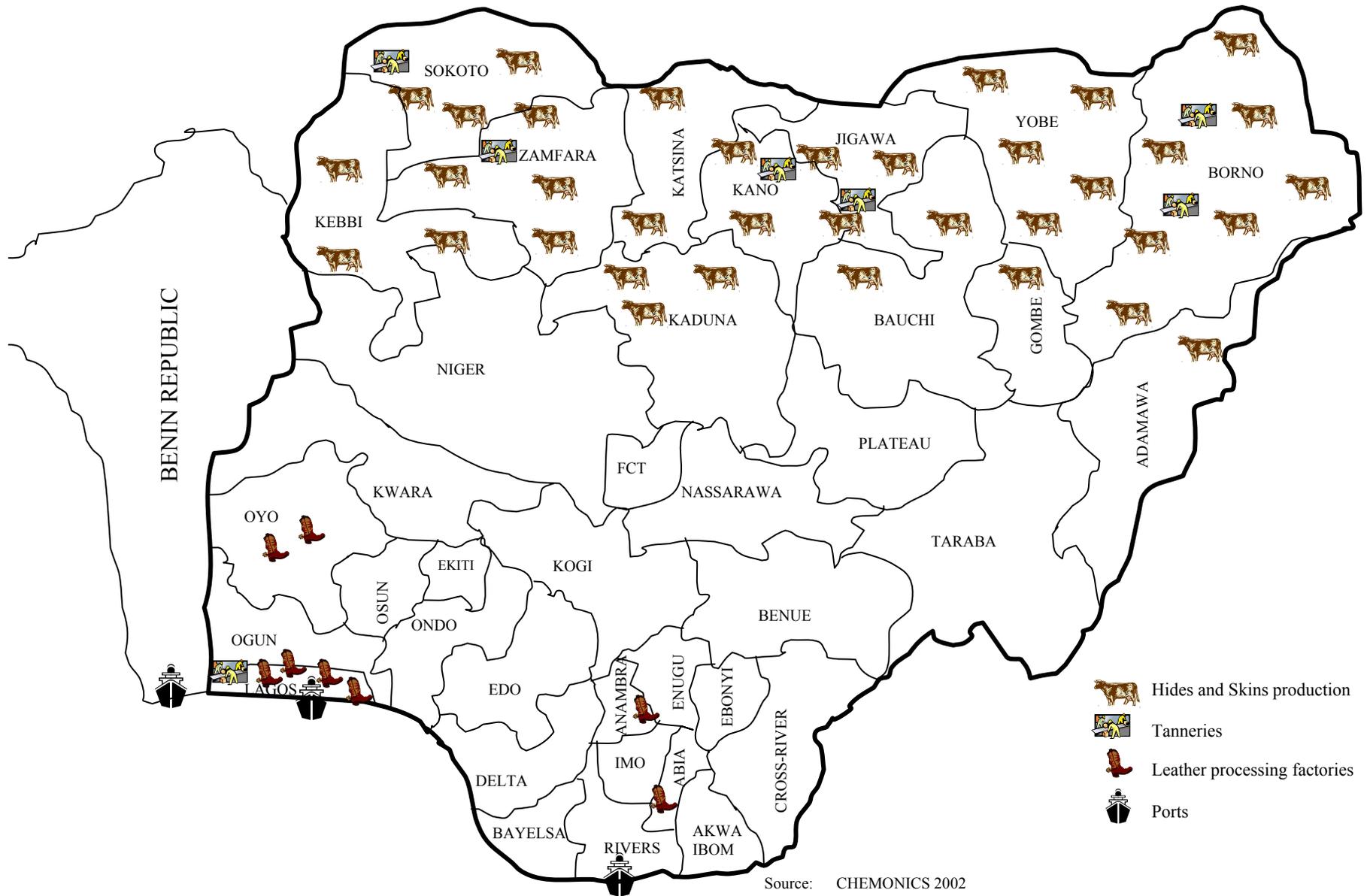
Exports			Imports		
Country	Value US\$ Billion	% Share	Country	Value US\$ Billion	% Share
Italy	14.78	20.4	USA	15.83	22.5
China	8.65	11.9	Germany	7.19	10.2
Germany	3.44	4.7	Italy	5.35	7.6
Brazil	2.96	4.1	China	4.47	6.3
U.K.	2.02	2.8	U.K.	3.63	5.2
Portugal	1.87	2.6	France	3.54	5.0
India	1.63	2.3	Japan	2.77	3.9
Indonesia	1.02	1.4	Canada	1.39	2.0
Total	36.37	50.2	Total	44.17	62.7
Total vol. of Trade	72.53		Total vol. of Trade	70.44	

Source: India State Statistical Bureau Trade Statistics (Web India)

F. International Trade Standards, Quality Specifications and Pricing

The type of hide or skin selected depends on the end use product, and as such it is necessary that the grading of this commodity be understood. Grading is based on species, size, thickness and condition (holes, varied thickness, scoring, patches, etc). Hides and skins are usually graded as 1, 2, 3, and scrap, with 1 being the best quality. For example if the finished leather is to be used for clothing, Grade 1 hides are desirable as the thickness is uniform, it has a large surface, limited holes and patches, etc.

Figure 5: Map of Nigeria showing Hides and Skins Activity Areas



II. NIGERIAN HIDES AND SKINS/LEATHER INDUSTRY

A. Background

The Nigerian livestock industry has gone through various challenges in the recent past. During the colonial days, the industry was structured to produce high quality, hygienic meat products. The by-products of the industry, which are predominantly hides and skins, were gathered, processed and exported overseas. Public health ordinances were respected and enforced by government agents posted to livestock trading posts and abattoirs. The reverse presents itself today. Livestock/meat inspection agents are no longer active. Animals are being slaughtered outside of official abattoirs, making it increasingly difficult to systematically harvest hides, skins and other by products of the industry. Several factors contributed to this decline, including the introduction of the 1986 structural adjustment policy. The policy brought along with it massive decline in demand for livestock products as they became unaffordable. Hides and skins, which ordinarily should have been processed into leather, became food for the poor and ultimately a delicacy, which even today is highly valued by the rich and the poor in the nation's urban centers. The purpose of this section is to examine the Nigerian hides and skins industry and come up with strategies for improving its services and products for both domestic and international markets competitiveness.

B. Nigerian Production

Cattle, sheep, pigs, poultry and goat operations dominate the Nigerian livestock industry, but our discussions will be limited to cattle, sheep and goats, which are the traditional sources of hides and skins in the country. Table 14 shows the very marginal increase worldwide in the production of farm animals since 1997.

Table 14: Nigeria Farm Animal Population (1995 –2000)

Farm Animal	1997	1998	1999	2000
Cattle				
World (Million)	1,493.0	1,499.0	1,503.0	1,515.0
Africa (Million)	167.3	171.4	172.7	173.3
Nigeria (Million)	19.6	19.7	19.8	19.8
Sheep				
World (Million)	1,056.0	1,055.0	1,055.0	1,057.0
Africa (Million)	156.9	157.9	160.6	160.0
Nigeria (Million)	19.5	20.0	20.5	20.5
Goat				
World (Million)	679.3	680.0	711.3	720.0
Africa (million)	156.8	158.7	159.8	159.8
Nigeria (Million)	23.2	23.7	24.3	24.3

FAO, World Statistical Compendium for Hides, Skins, Leather and Leather Products (1982 –2000)

Cattle, sheep and goats, as ruminants, tend to be restricted to grassland areas which are located in the north of Nigeria, where the industry thrives. Marginal cattle, sheep and goat rearing exists in the south, where the animals are kept more as pets or as a source of food for the family. It is rare to find ranches or feedlot arrangements in Nigeria. More commonly, animals are raised by smallholder herdsmen, who keep and see their animals as a measurement of wealth or asset. Most of the cattle, sheep and goats traded in the local livestock markets are largely these grass fed specimens.



Figure 6: Herd of cattle being grazed by nomads along Zaria– Kano interstate.

Though the nation has a history of policy actions focused on livestock reproduction, support projects, which were designed and executed largely by government, have largely failed for a number of reasons. The only cattle reproduction program, which was largely dormant in the recent past, but which is now revived, is the Odua Cattle Project with ranches in five locations in the Southwest.

With this large percentage of livestock raised in nomadic fashion, and relatively small number of ranches or feedlots, extraction of livestock is largely done from the stock raised by the nomadic herdsmen. During the dry season, nomad herdsmen trek to the southern part of the country to take advantage of the forage available for grazing. This style of cattle production is vital for the existence of these herds, since the resources of the North would not be sufficient to support year-round grazing, and there are no watering facilities to supplement natural water sources. There are some conflicts which arise between the nomads and farmers on whose crops these animals occasionally graze.

Unlike the developed countries, Nigeria has no commercial cattle feedlots; neither does it have commercial cow calf farms. Table 15 shows a sharp decline in the number of cattle slaughtered and those numbers explain the decline in the quantity of hides and skins harvested.

Table 15: Slaughter Statistics in Nigeria (1985 – 1995)

YEAR	CATTLE	GOAT	SHEEP	PIG	CAMEL
1985	2,106,140	2,493,479	1,313,135	63,725	106,830
1986	1,415,859	2,250,945	1,246,517	84,739	55,746
1987	1,160,577	2,229,063	1,169,716	93,175	35,406
1988	1,041,475	2,215,854	1,501,019	98,269	43,540
1989	1,404,060	2,110,337	1,349,131	247,025	53,540
1990	1,471,540	1,881,696	1,455,269	237,107	56,456
1991	776,246	2,461,113	705,428	119,020	2,858
1992	1,192,642	2,369,907	1,499,242	106,063	61,020
1993	1,347,964	1,975,090	1,544,335	87,104	33,070
1994	1,220,670	1,982,427	1,046,618	75,443	31,101
1995	983,446	1,423,089	1,028,141	148,474	14,881

Source: Federal Office of Statistics, *Annual Abstract of Statistics, Various years*

The information provided in Table 15 is from officially recognized abattoirs. The downward trend in the number of farm animals slaughtered appears to have started in 1986 with the introduction of the Nigerian Structural Adjustment Policy (SAP). The significant reduction in the number of animals slaughtered impacted negatively on the local hides, skins and leather industry.

However, there are indications that most of the animals are slaughtered in unofficial abattoirs where records are either not kept or are not incorporated into official statistics. Some animals are slaughtered in unofficial abattoirs due to religious provisions, and some are slaughtered there in the belief that government abattoirs are prohibitively expensive.

B. 1. Imports

The quantity and value of imports completes the production picture. Although there are no reliable official records, FAO data suggest there are some imported live animals (see Table 16), and anecdotal evidence shows that nomadic herds cross borders relatively freely, to access resources and markets. Whether the number of imported livestock is included in the official production statistics is unknown.

Table 16: Quantity and Value of Selected Nigerian Live Animal Imports

	Imported Heads	Value (US\$)
Cattle	350,000	160,000,000
Sheep	400,000	25,000,000
Goat	380,000	25,000,000

FAO, 2001

C. Hides and Skins Preservation

A typical farm animal is raised for meat and when slaughtered it is dressed. This process includes the removal of hides and skins as well as the viscera of the animal. In many cultures, the viscera becomes edible after further processing. The hides and skins are generally regarded as inedible and are processed into leather. Depending on the health, age, weight and nutritional status of the animal, hides and skins can account for as high as 15% and as low as 7% of the dress out weight of the animal (a typical dressing percentage of a well managed farm animal is 60 - 65%).

D. Sources of Hides and Skins in Nigeria

Hides and skins are obtainable in commercial quantities from abattoirs located all over the country, especially in the Northern states. Finished leathers on the other hand are obtainable from tanneries and also from traditional tanners, both of which are also located in the North. Nigeria exports predominantly leather made of skins (sheep and goat) to the European Union. Most of the leather of goat origin is from the Red Sokoto breed, which like most goats tends to overgraze, and also has difficulty breeding, but which is also acknowledged for its good quality –Moroccan-style leather. Unfortunately, the Red Sokoto Goat is currently being over exploited and it is now being considered for protection as an endangered species.

E. Domestic Supply of Hides and Skins

In 1997 Nigeria produced 27,000 tons of cattle hides, a level that has remained relatively static since (see Table 17). The production of sheep skin, on the other hand, increased from 2,800 tons in 1995 to 5,000 tons in 2002, while the production of goat skin rose from 10,200 tons in 1995 to 12,200 tons in 1996 and has remained relatively static since.



Figure 7: A typical cattle market in Nigeria.

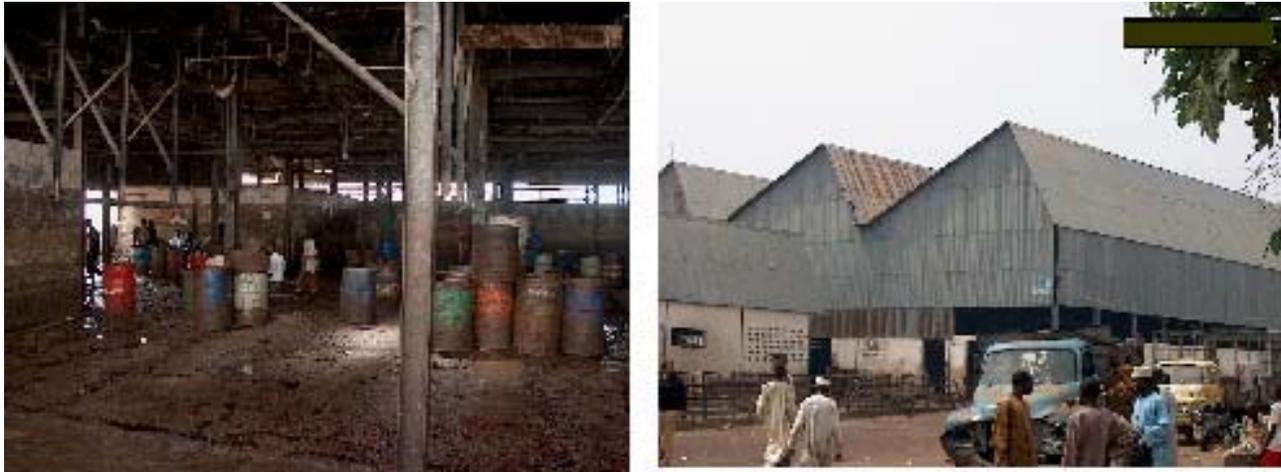


Figure 8: The interior and exterior of an abattoir in Kano, Nigeria.

Table 17: Nigerian Production of Various Grades of Hides and Skins ('000Tons)

Farm Animal	1995	1996	1997	1998	1999	2000
Cattle (Wet Salted Wt)						
World	5,566	5,549	5,667	5,664	5,698	5,806
Africa	231.4	238.2	238.8	240.7	246.0	247.1
Nigeria	24.0	26.2	27.0	27.2	27.4	27.2
Sheep (Dried Weight)						
World	410.1	396.1	384.3	390.9	394.7	393.9
Africa	37.5	38.2	39.8	39.3	40.4	40.1
Nigeria	2.8	3.4	4.7	4.9	5.0	5.0
Goat (Dried Weight)						
World	297.2	297.5	314.8	327.9	334.8	339.8
Africa	48.2	51.3	51.2	52.1	52.6	52.5
Nigeria	10.2	12.2	11.6	11.9	12.1	12.1

FAO, World Statistical Compendium for Hides, Skins, Leather and Leather Products (1982 –2000)

Nigeria's output of hides and skins has been relatively static over the past six years. This could be related to the decline or static demand for meat, which has remained unaffordable for a large part of the population for well over fifteen years. A recent improvement in average wage scales is expected to increase demand for red meat products, and concurrently production of hides and skins.



Nigerian raw skins are primarily traded in the traditional form (dry salted). The main quality complaint relates to the poor manual flaying process of the animals, which leaves holes in the recovered hides and skins. Though there are master flaying machines in most of the authorized abattoirs in the country, local butchers rarely go through the expense and effort of using them, as the hides and skins recovered from these animals are meant for consumption rather than the tanneries (see Table 18).

Figure 9: The hide of a large cow being displayed.

Table 18: Hides and Skins Recovery at the Jos Abattoir, January 1999 – February 2000

Hides Production			Skin Production			Summary of Production		
Total no. of Hides Produced	Hides for Human Consumption	Hides for Processing	Total no. of Skins Produced	Total No. of Skins Roasted on The Animal	Skins for Processing	Total Hides and Skins Produced	Total Hides and Skin for Human Consumption	Total Hides a Skin for Processing
64,033	61,655	2,378	73,764	26,748	47,016	137,777	88,354	49,423
	96.29%	3.71%		36.26%	63.74%		64.13%	35.87%

Source: NARICT Jos Extension Centre Surveys

F. Domestic Demand for Leather

There are many shoe manufacturers in the country and FAMAD Plc. is the largest. The company requires approximately 22,000sq.ft of various grades of leather per day to operate at full capacity but currently operates at 10% (2,000sq.ft daily) capacity, despite the fact that it owns a tannery (Great Nigeria Tanneries in Kano). The story is the same for other institutional shoe manufacturers such as Lennards, Silver Shoes, Perfecta, or for the small-scale producers. Many of the small-scale producers depend on imported leather to remain in production.

Assuming a ratio of six shoes to a square meter of leather and with shoes accounting for 75% of the leather consumption in the country, the estimated national demand of leather for shoe manufacturing is 4 million sq meters (43 million sq ft), while the total demand for leather products is estimated at 5.33 million sq meters (57million sq ft.) It is interesting to note that local tanneries

supply less than 10% of the national demand for leather by the shoe-manufacturing sector. Domestic production of shoes is estimated at not more than 4 million pairs per annum. The supply gap is 20 million pairs and is currently being met by imports.



Figure 10: Leather from a Goatskin in Nigeria.

F.1 Domestic Consumption of Hides and Skins

In Nigeria, hides and skins when properly prepared are considered a delicacy among certain populations, particularly those from the South. Though it is difficult to estimate the volume of demand for food grade hides and skins, it is clear that a significant proportion of the production is consumed as food. The edible hides and skins are relatively inexpensive in comparison to other meat products, and demand is expected to keep growing due to the high level of urbanization and population growth in the country. It is estimated annual demand for edible hides and skins is over 2.5 million square meters.

G. The Nigerian Tannery Industry

There are 41 commercial tanneries in Nigeria, with a collective installed production capacity of 310,000 hides and 25.5 million pieces of skin per annum. In 1999, operating tanneries produced only 55,000 tanned hides, and then dropped to production of 3,000 units in 2000. This represents operations at 18% and 1% of capacity, respectively. At the same time, the operating tanneries produced 7.5 million pieces of skin in 1999, and 6.9million pieces in 2000. This represented 29% and 27% capacity utilization, respectively.

From the production capacity, it is clear that Nigerian tanneries are designed more to process skins than hides. Even with their rather low installed production capacity relative to international industries, the factories are operating at less than 30% of installed capacity for skins and at 1% for hides.

Currently only sixteen of the 41 tanneries are functional. Twelve of the 41 are designed to produce finished leather and wet blue; only eight are still in operation. Twenty-nine of the 41 tanneries produce wet blue only. Out of this number only eight are functional (see Table 19).

Table 19: Profile of Nigeria Tanneries

Tanneries	Installed Production Capacity ('000 pieces)		Products		Current Status
	Hides	Skins	Wet Blue	Leather	
Harmattan Tannery, Kano	20	500	Yes	Yes	Operational
Kapital Tannery, Kano		1100	Yes	No	Operational
Mario-Jose Enterprises, Kano		1000	Yes	Yes	Operational
Globus Tannery, Kano	10	800	Yes	Yes	Operational
Challawa Tannery, Kano		400	Yes	No	Dormant
Kano Tannery, Kano		200	Yes	No	Dormant
KTL Tannery, Kano		200	Yes	No	Dormant
Tannorth Tannery, Kano	10	300	Yes	No	Operational
Deras Tannery, Kano		1000	Yes	No	Dormant
Multitan Limited, Kano		800	Yes	Yes	Operational
Great Northern Tannery, Kano	60	700	Yes	Yes	Operational
International Tannery, Kano	50	800	Yes	Yes	Operational
Gashhash Tannery, Kano		400	Yes	No	Operational
Arewa Tannery, Kano		400	Yes	No	Dormant
Usama Tannery, Kano		200	Yes	No	Dormant
Arewa Tannery, Sharad-Kano		1000	Yes	No	Dormant
Naaba Tannery, Kano		300	Yes	No	Dormant
Sule Galadima Tannery, Kano		200	Yes	No	Dormant
Fine Leather Tannery, Kano		800	Yes	Yes	Operational
Nakudu Tannery, Kano		500	Yes	No	Operational
Frinpex Tannery, Kano		400	Yes	No	Operational
God's Little Tannery, Kano		100	Yes	No	Dormant
Hassan El-Mir Tannery, Kano		1200	Yes	No	Dormant
Mahaza Tannery, Kano		1200	Yes	No	Dormant
Selcon Tannery, Kano		800	Yes	No	Dormant
Tan Arewa, Kano		1100	Yes	No	Dormant
Nabegu Tannery, Kano		600	Yes	Yes	Operational
Trends Venegrade, Kano		800	Yes	No	Operational
Garo Tannery, Kano		900	Yes	No	Dormant
Akkad Tannery, Kano		1000	Yes	No	Operational
Fata Tannery, Kano		1500	Yes	Yes	Dormant
Darum Tannery, Kano		400	Yes	No	Operational
Unique Leather Finishing, Kano		1000	Yes	Yes	Dormant
Neital Tannery, Maiduguri	50	600	Yes	No	Dormant
Sokoto Tanning Industry, Sokoto	40	1000	Yes	No	Dormant
Dange Leather Limited, Sokoto	50	600	Yes	No	Dormant
Leather Products, Sokoto		600	Yes	No	Dormant
Gusau Tanning Company, Gusau		600	Yes	No	Dormant
Danzami Tannery Katsina		400	Yes	No	Dormant
Ajaji Tanneries, Lagos	10	100	Yes	Yes	Dormant
Limson Tanneries, Lagos	10		Yes	Yes	Dormant

Most of the tanneries in the country are predominantly based in Kano. Many of functional tanneries are foreign owned, and have a mandate to export high quality leather, with the rest sold to the domestic market. While the government has prohibited the export of untanned hides and skins and wet blue, export trade in such commodities still exists (see Table 20), but is declining.

Table 20: Nigerian Exports of Skins and Leather to the EU in Tons

Code	Product	1995	1996	1997	1998	1999	Trend
4105	Sheep Leather and Hides	4,524	5,363	5,124	3,629	2,982	◀
41051210	Pre-tanned, unsplit Sheep's leather	3,936	4,235	4,346	2,898	1,859	◀
41052000	Woolless tanned Sheep's leather	172	274	201	263	636	=
4106	Goat Leather and Hides	7,171	7,944	9,290	7,117	4,936	◀
41061200	Dehaired Goat pre-tanned leather	6,420	6,502	7,135	5,255	2,488	◀
41061900	Dehaired tanned Goat leather	198	854	1,550	1,303	1,985	↗
41062000	Dehaired tanned prepared Goat leather	344	428	425	448	394	=

Source EU Trade Data, 2000

Key: ◀ falling, ↗ increasing, = flat

There are indications that a sizeable number of hides and skins from neighboring countries are imported into the country and processed into leather. The volume of such importations is undocumented, however.

H. Commodity Pricing and Trend

Weight, size, patches, and holes are just a few of the parameters that determine the value of hides and skins. A large proportion of local hides and skins are discounted even in the local market (by as high as 25%) because of these. Hides which are unacceptable for leather products manufacturing, are easily sold for food and can even be sold at a much higher price. One of the primary reasons for a shortage of hides going into tanneries is that the market for food grade hides is more attractive to butchers than that of the tanneries. The food market pays over 5 times what tanneries pay and is consequently supplied with hides from as far away as Chad, Cameroon and Niger.

Generally speaking, an average sized hide trades for about N3, 000 at the food market. However, information has it that abattoirs pay less than N500 for an average sized hide. Tanneries on the other hand are said to offer between N2 -5/square ft of hide and skin, or approximately N240-600. Some tanners say that they pay as high N500 – N1, 200 for a square meter of skin. Table 21 lists the prevailing retail prices of both local and imported leather at Lagos's Mushin Market.

Table 21: Current Prices of Leathers in the Nigerian Market

Source	Type	Grades		
		A	B	C
Prices In Naira per Square Foot				
Imported Brands	Plain	185	150	N/A
	Printed	200 - 210	150 - 180	N/A
Local Brands	Plain	130	110 - 120	N/A
	Printed	140 - 145	130 - 150	N/A

I. Live Animals, Meat, Hides/Skins and Leather Products Distribution

I.1. Live animals and red meat distribution chain

The marketing of livestock and meat products is largely done informally. Cattle are sold in livestock markets, which are usually close to official abattoirs. There are two types of traders in the cattle industry and they are distinguished by the mode of transporting their stock. Nomad herdsmen trek their animals to the south in search of pastures and in the process sell off some. The other type of traders are dealers who buy from nomad herdsmen and farmers either at the farm gate or the cattle market and ship them by road to the point of sale or livestock market using 30 ton trucks. These trucks on the average have a 20-animal carrying capacity and charge approximately N35, 000 per trip from the north to the south.

At the market, there are two types of middlemen. There are those who broker deals between the seller and a buyer, be it butcher or other final consumer, based on an agreed commission, which is usually fixed by the trade association. The other type of middleman purchases the livestock from the seller, keeping and fattening the animals until they can be sold off. In this situation, the middleman is working towards his own profit, rather than a commission on a sale. The middleman is at liberty to sell at any rate convenient to him. Generally the middleman is able to make a profit after having fattened animals to an acceptable weight before sales. In most cases, such transactions are done on trade credit, which is fostered by confidence, and trust in the middlemen.

Sales to butchers on most occasions are also by trade credits to trusted individuals or groups who remit returns to middlemen or cattle owners following daily sales. This is the general trend in the industry driven mainly by trust and personal integrity. Hidden premiums on such credit could be as high as 10% - 15% per month with similar transaction costs transferred to retailers of entrails and hoofs. Red meat retailing is highly gender sensitive. Men retail red meat while women retail entrails and hoofs. This group of retailers also constitutes a distribution chain that focus on local restaurants popularly called “Bukas” or “mama put”. Women, who particularly depend on foodstuffs trade credit to remain in business, dominate this trade.

I.2. Hides and Skins distribution chain

Recovered hides and skins from abattoirs are usually sold by butchers to women who process them to food grade hides popularly called “Ponmo”. This group of retailers consists mainly of women. However, sales to tanneries are done through buying agents who procure in most cases wet salted hides from butchers and supply to tanneries.

I.3. Industrial grade leather distribution

Good quality industrial grade leather, which is usually graded as A or B, is most often exported by domestic tanneries. Those not exported (which most times are lower grades), are sold locally to middlemen who often provide the tanneries with working capital that is repaid in finished leather at an agreed price and grade. Imported leather is also distributed through a similar chain. Lagos, Ibadan, Aba and Onitsha are the major distribution points for both imported and locally sourced leathers, which incidentally command about the same price in the market (see Table 21 above).

III. ENVIRONMENT

A. Government Policy/Infrastructure

The export of hides, skins, or semi-finished leather (wet blue) is prohibited in Nigeria. However, the information provided in this chapter relates to the export of leather products.

At independence in 1960, agricultural exports account for over 60% of total export earnings and a similar proportion of the gross domestic products (GDP). In the 1970s and 80s, a combination of increasing petroleum oil production and rising prices brought easy and windfall earnings, which diverted Nigeria's attention and encouraged the neglect of agricultural exports. Over the years, there have been different agricultural policies targeted at improving the performance of the agricultural sector. The objectives of agricultural policy can be broadly stated as follows:

- Provision of self-sufficiency in food and raw materials for industries;
- Improvement of the socio-economic welfare of rural people engaged in agriculture; and
- Diversification of the sources of foreign exchange earnings through increased agricultural exports arising from adoption of appropriate technologies in food production and distribution

A.1. Federal Ministry of Finance, Budget Office

In the area of exports, there are a couple of government initiatives that exporters enjoy. The Federal Ministry of Finance, working with several agencies including the Nigerian Export Promotion Council, NEXIM and local commercial banks, has several export-oriented incentives:

A.1.a. Manufacture – In- Bond Scheme

The Manufacture-in-Bond Scheme is designed to encourage manufacturers to import duty free raw material inputs and other intermediate products whether prohibited or not for the production of exportable goods, backed by a bond issued by any recognized commercial bank, merchant bank, insurance company or NEXIM. The Bond will be discharged after evidence of exportation and repatriation of foreign exchange has been produced.

A.1.b. Duty Drawback Scheme

The Duty Drawback Scheme provides for refund of duties or surcharges on raw materials including packing and packaging material used in the manufacture of products upon effective exportation of the final product.

A.1.c. Export Expansion Grant Scheme

The Export Expansion Grant Scheme provides for cash inducement of exporter who has exported a minimum of N500, 000 (five hundred thousand Naira) worth of processed products. Exporters of processed products initially received a 4% rebate, which, as of 2002, has been increased to 20%.

This scheme was discussed most often by the exporters' interview. Due to the 6-8 month delay in payment, there is a secondary market for the Duty Credit Certificates. The Certificates are essentially cash, to be collected eventually from the Government. Usually the exporters sell these certificates to importers through the banks at a 10%.

A.1.d. Export Development Fund Scheme

Export Development Fund (EDF) is a scheme developed by the Federal Government of Nigeria to provide financial assistance to private sector exporting companies to cover part of their initial expenses in respect of the following export promotion activities:

- Participation in training courses, symposia, and seminars in all aspects of export promotion
- Advertising and publicity campaigns in abroad
- Export market research
- Product design and consultancy
- Participation in trade fairs, missions
- Cost of collecting trade information and
- Backing up the development of export oriented industries

Also the Nigerian Export Council meets regularly with exporters to discuss, develop and improve new incentives

A.2. The Nigerian Export-Import Bank (NEXIM)

NEXIM was established by the Federal Government of Nigeria by Decree 38 of 1991 to replace the defunct Nigerian Export Credit Guarantee and Insurance Corporation with the main objective of providing a commercially oriented and export-stimulating institution that is committed to bringing about export-led recovery as well as a culture of self-inspired and sustained exporting in Nigeria. The bank was established to provide, among others: credit in local currency to support Nigerian exports; export credit guarantee and export credit insurance; domestic credit insurance when such a facility will help export; credit insurance in respect of external trade, transit trade and entrepot trade; and investment guarantees and investment insurance facilities. NEXIM maintains a foreign exchange revolving fund for lending to exporters who need to import foreign inputs; raw materials and packaging materials to help export production and a trade information system to support export business. NEXIM also buys and sells foreign exchange.

Presently, NEXIM is mainly involved in the production of financial and risk bearing services, market information export education and advisory services, to mention a few. NEXIM has emerged as the predominant source of short-term trade financing provided to the export sector. The major financial facilities offered by NEXIM in support of non-oil export include:

A.2.a. Rediscounting and Refinancing Facility (RRF):

This helps banks to provide pre and post shipment finance in local currency to support non-oil exports. While the refinancing scheme provides a bank with credit of up to one year, the rediscounting scheme provides short-term pre-shipment credit up to 120 days and post-shipment credit up to 60 days. As at the time of this report, exporters were receiving a NEXIM rediscounting rate of 21% (inclusive of bank charges, about 4%) as compared to commercial bank rate of 35%

A.2.b. Foreign Input Facility (FIF):

This provides manufacturers of export products foreign currency loans to import capital equipment, packaging and raw materials to produce finished products for export. The facility was intended to benefit small and medium sized enterprises whose assets do not exceed \$6 million.

A.2.c. Stocking Facility:

This is provided in local currency and it enables manufacturers of exportable goods to procure adequate stocks of raw materials to keep their production at optimal levels.

NEXIM Risk Bearing Services include:

- Export Credit Guarantee Facility
- Export Credit Insurance Facility
- Investment Guarantee and Investment Insurance Facilities
- Interstate Road Transit Scheme to guarantee goods transiting Nigeria to other member states of the Economic Community of West African States (ECOWAS)

In 2000, NEXIM was able to generate \$15.90 million of foreign exchange from its Export Credit Rediscounting and Refinancing Facility (RRF), which represents an increase of 99.5% over levels achieved in the previous year. The foreign exchange generated from RRF operations serves as a barometer of effectiveness of NEXIM's export support activities. Besides these export incentives, the Federal Government still has a way to go with bureaucratic procedures, particularly at the port, and with unreliable and in most cases, non existent recorded data/information.

Under the first National Development Plan, the Federal Government restricted itself to research activities for improving production of cash crops. However, following the emergence of many problems, especially food shortages, the government decided to play a more dynamic role in primary production, beginning from the mid-1970s. Consequently, the policy instruments adopted were: provision of credit; intensification of agricultural research; input subsidy; price support; manpower development and training; mechanization; land reform and international trade regulation. In order to ensure the realization of policy goals, various institutions were established for supervising or for providing some of the essential supporting services required by the sector.

A.3. The Africa Project Development Facility (APDF)

The APDF was launched in 1986 to support the development of competitive African small and medium enterprises, with services that are needed and affordable, working mainly through local institutions and consultants. The APDF has assisted over 460 enterprises in Sub Saharan Africa. APDF helps to improve operations through capacity building and training. While APDF itself does not provide finance, it helps to source financing from the market and to find appropriate business solutions.

B. Socio-Economic Issues

Due to the nature of the ADAN project, there is a special need to address socio-economic concerns as well as business issues. Both are important to the success of any project.

B.1. Environmental Effects

Industrial processing or preservation of leather can be toxic due to the accumulation of Chromic acid in the locations where such activities are located. The effluent and odor from these activities are also of significant concern, especially with tanneries located close to residential areas.

B.2. Impact on Employment and Incomes

The processing of hides and skins into finished leather and leather products presents an investment opportunity that is capable of significantly improving both urban and rural economies. Adding value to hides and skins and producing leather-based products for both international and domestic markets create job opportunities and limit importation of leather products. Also improvements in livestock rearing can increase incomes, particularly for women.

B.3. Geographic Distribution

Cattle, sheep and pigs thrive in every part of Nigeria. However, cattle, sheep and goats are better adapted to the northern region than the south. For instance, the concentration of hides and skins production in northern Nigeria is based on ecological adaptation of Sokoto, Kebbi, Zamfara, Katsina, Jigawa, Kano, Katsina, Borno, Bauchi cattle and sheep. Certain locations in the south with grassland vegetation can also support large farm animal production.

IV. OPPORTUNITIES AND CONSTRAINTS

A Farm Animal Production and Meat Packaging

Opportunities:

- The export skins and leather industry is huge, believed to be worth around \$4.4 billion for raw hides and skins, \$14 billion in rough-tanned and finished leathers of all types and \$25 billion for footwear with leather uppers.
- Over the last two decades, the average growth in trade has been 3% for raw hides and skins, 10% for rough-tanned and finished leathers, and nearly 8% for footwear and leathers. In developing countries, however, the percentage growth in both rough-tanned products and footwear has been increasing at over 12% per year.
- Large and growing domestic demand for animals and hides and skins, which is being met by domestic production and regional imports.
- Substantially higher prices (between 5-10 times) for food grades hide (ponmo) than industrial grades. Opportunities in the commercial production of roughages (hay, silages, etc) and grass seed for the cattle industry across the nation
- Extensive opportunities for provision of veterinary, artificial insemination, breeding and fattening services
- Job creation and capacity building through standardization and regulation of trade in livestock and meat products

Constraints:

- Limited lands for grazing which cause disputes between herdsman and farmers
- Absence of commercial cattle, sheep and goat projects
- Challenges arising from land acquisition
- Poor infrastructure – water, electricity
- High cost of capital

B. Tanneries and Leather Products Manufacturing

Opportunities

- Large and growing domestic, regional and international market for hides/skins & leather products
- Highly competitive domestic market for leather products
- Competitive production rates of good quality leather products
- Franchise production arrangement with small scale leather products by industrial tanneries and shoe manufacturers (industry networking)

Constraints

- Scarcity of hides and skins in the right quality and quantity
- Scarcity of leather in the right quality and quantity for domestic value addition
- Absence of direct linkage with the international market
- Absence of transparency and standard in the Nigerian tannery industry

V. CONCLUSIONS AND RECOMMENDATIONS

The global export market for hides and skins is \$4.4 billion, \$14 billion for rough-tanned and finished leathers of all types and \$72 billion for all leather products (footwear, cloths, upholstery, handbags). These markets are growing by a minimum of 3%p.a. Developed countries now export their raw material (i.e., hides and skins) for processing in developing countries then purchased the value added leather products. To meet the demands of this large growing market, industry players are looking for more processing capacity, including in Africa. And Nigeria has all of the inputs necessary to take full advantage of these marketing opportunities.

Given the level of competition, success in the industry will demand careful firm-level feasibility studies, technical assistance, sustainable supporting organizations, and government support. It will also require astute forecasting of, and mitigative measures against, efforts by competitors to stymie entry.

In light of the opportunities and constraints examined in the subsector assessment, the authors propose a goal *'to increasing Nigeria's leather production to meet both domestic and export demand.'* To achieve this goal, the specific objectives include:

- To increase Nigeria's share of the world leather products market from \$35 million to \$140 million in 10 years;
- Significantly reduce Nigeria's dependence on imported shoes, hides and skins and animals;
- To increase jobs and incomes of those involved along the marketing chain from livestock rearing, through to leather and leather products (i.e., shoes) and all other ancillary industries.

A. Approach

An Industry Action Plan has been developed to supplement this subsector assessment. The IAP details proposed strategies, activities and timelines.

B. Implementation

The first step is to conduct a detailed feasibility study on both the domestic and export markets to validate all assumptions.

Initially, focus on:

- Creating awareness of the opportunities in the leather products industry from production (livestock rearing) to processing of finished goods.
- Provide technical assistance to increase the quantity and quality of developing and strengthening private sector organizations (i.e. cooperatives, trade groups, NGOs, etc.) to increase the quantity, quality and profitability of livestock production, marketing and processing livestock products as well as homestead processing of hides and skins.

Industry stakeholders have developed the following action steps and responsibilities for both the short and long term:

Table 22: Action Steps and Responsibilities

Action Steps	Who plays leadership roles?
Resettling cattle breeders (ownership, ranches, etc)	Private sector
Low interest rates for 20 years	Public
Establishment of grazing reserves	Public and private sector
Improvement of livestock breeding	Private & public
Commercialization local tannery technology	Private and public
Enforcement of standards	Public
Building small strategically placed abattoirs	Public and private
Improvement of recovery rates of hides & skins	Public and private
Public/private sector partnership in research & development	Public and private
Increase awareness of business opportunities	Public and private
More funding of veterinary research (livestock diseases)	Public
Building of modern abattoirs	Public and private
Funding, technology and advisory	Multinational donor agencies

For sustainability, the team proposes the establishment of a **Commodity Business Bureau (CBB)**. This CBB will be a private-sector owned entity focused on providing business services for the domestic and international leather products industry. The CBB will work in collaboration with government and multinational organizations. Once established, the CBB will be the focal point for leather activities, enveloping those mentioned above and expanding to include: provision of current marketing information; targeted technical assistance; assistance establishing business and financing linkages; strengthened associations and cooperatives; development of standards.

APPENDIX I: SWOT ANALYSIS OF THE NIGERIA HIDES & SKINS INDUSTRY

In the course of this study efforts have been made to carry out a basic analysis of the potential strength, internal weaknesses, opportunities within the operating environment, and the external threats to business operations of the Nigerian livestock industry. These are herein referred to as SWOT analysis. The purpose of this analysis is to provide basic information for strategic restructuring of the investment opportunities within the industry. The analysis will benefit existing investors because it highlights issues that insiders may not capture about the subsector, which a trained, independent, dispassionate and emotionally detached observer would perceive clearly. For the potential investor, it opens up the areas of opportunities within the sub sector while at the same time being mindful and drawing attention to the challenges of the potential investments. The major points discussed in this analysis have been categorized below:

A. Strengths

- Cattle, sheep and goats thrive in most parts of the country, save for the delta region.
- The availability of land that is suitable for and can support livestock operation
- Large domestic (industrial and food grades) market
- Rich history of cattle production and processing (1940 – mid 1980's)
- Large population of farm animals – basic raw materials
- Skin of Red Sokoto goat – premium in the international market
- Rich experience in homestead keeping of animals and hides/skins processing
- The existence of a highly professional and well-organized export sector
- Access to hides and skins from neighboring countries with limited leather processing facilities.
- Availability of large pool of skillful individuals and groups in traditional tanning operations, which does not rely on chromic acid and other toxic chemicals
- Large number of tanneries, which are successfully exporting high quality leather to the EU market
- Existence of extensive and intensive leather products manufacture ring institutions
- Local production of rubber and carbon black coupled with good experience in shoe sole production
- Easy access to sea freight and export processing zones
- Established trade connections with Italy and Spain with opportunities for widening the network
- Trade Groups (i.e., Tanneries Council) – Network that could drive intervention process.

B. Weaknesses

- Poor international trade image
- Challenges arising from land acquisition and compensation to host communities
- Unorganized raw materials sourcing
- Problem of overgrazing by Red Sokoto goats, which is cherished for its good quality skins
- Commercial cattle, sheep and goat rearing is limited
- Cattle rearing done mainly by nomads

- Absence of commercial cattle multiplication projects to supply feeder cattle
- Absence of commercial feedlots for finishing of market cattle
- Weak demand for red meat due to high retail prices
- Competition between consumption of hides and skin as food and industrial applications
- Inability of local production to meet up domestic demand
- Non-availability of cattle ranch inputs
- High operating costs, high cost of funds

C. Opportunities

- The export skins and leather industry is huge, believed to be worth around \$4.4 billion for raw hides and skins, \$14 billion in rough-tanned and finished leathers of all types and \$25 billion for footwear with leather uppers.
- Over the last two decades, the average growth in trade has been 3% for raw hides and skins, 10% for rough-tanned and finished leathers, and nearly 8% for footwear and leathers. In developing countries, however, the percentage growth in both rough-tanned products and footwear has been increasing at over 12% per year.
- There is a sizeable amount of fertile land that can support commercial agricultural ventures in all parts of the country.
- Leather products will contribute significantly to diversifying the foreign exchange earning capacity of the nation and reduce imports.
- Employment generated both on farm and off farm especially with value added processing of hides and skins into leather products for export.
- Large domestic and regional markets for the absorption of surplus leather products
- Huge opportunities for value added processing of hides & skins
- Extensive opportunities for investors (financial or materials) in Nigeria's emerging fast food industry, food processing, animal breeding, tanneries, shoe manufacturing, etc., for value added processing to satisfy both domestic and international market.

D. Threats

- Competition from well established countries like China, India.
- Long-term environmental implications of uncontrolled industrial processing of hide and skins
- Many communities and landowners are usually wary of government on land matters and as a result, land acquisition on commercial scale may be a major challenge.
- The grave practical difficulties of establishing a profitable processing sector in Africa, e.g. low labor output, limited operating season, high interest rates, grading standards, lack of critical mass for different grades and new marketing channels.

APPENDIX II: OVERVIEW OF GLOBAL LIVESTOCK PRODUCTION

Generally speaking, arable crop farmers also keep cattle as alternative source of income as they graze their animals on the stubs of their harvested crops. However, there are farmers who specialize in cattle production and see this as their main line of operation. There are several types of specialized operations in the cattle and sheep industry and these are briefly explained below.

Cattle farming could either be for beef or milk production. Feedlot operation is unique to the beef production industry while dairy operation is unique to milk production. However, cow-calf operation is common to both operations. In the case of feedlot operations, young animals (yearling steers and heifers) are herded in lots or pens and fed to market weight before they are slaughtered for beef. Steers and heifers for this purpose could be obtained from both dairy and beef operations. A typical cow-calf operation is a cattle multiplication operation through well-planned breeding operations. It usually consists of proven cows and bulls, which are either mated naturally or through artificial inseminations. In the case of dairy operations, the purpose of mating is to get such cows to parturate without which milk production for human consumption cannot be realized. The by-products of the process are yearling, steers or heifers, which are either fed out for beef production or retained as replacement herd. A typical cow-calf operation designed for beef or milk operations basically produces proven progenies, which are usually fast growers and efficient feed converters, meant for the feedlots where they are finished for slaughtering as beef animals.

Sheep farming on the other hand, depending on location could either be for mutton or wool (or both) production. In the temperate regions, they are predominantly kept for wool production while in the tropics (Nigeria inclusive) they are kept for mutton production. Sheep farming is quite similar to cattle farming save that the end products are slightly different. Wool's only utility value is with the textile industry. In the case of Nigeria, sheep are kept for mutton production and usually herded with cattle in a free-range management system.

Goat Farming is not usual in the temperate region, but is common in the tropics. Even then, goats hardly do well in confinement. The animal does extremely well on marginal soils and hilly locations. They are deep grazing animals, which even forage on the roots of grasses. The implication of which is over grazing with negative environmental consequences (erosion). Generally speaking, goats require extensive land space and are largely free-ranged on hilly and marginally productive land. Goat rearing in Northern Nigeria (Red Sokoto) takes this form. In the South, goats (West African Dwarfs) are kept more as pets than for commercial purpose. Goat meat is highly cherished in the South and among the Asian and Middle East communities. Though its milk is acknowledged to be of better quality than cow milk, it is not clear where it is being commercially produced locally.

Ruminant livestock are raised for meat, milk and wool production and when slaughtered, hides are obtained as by-products, as none of them is raised for this purpose. However, this by-product is of major economic value as a major industrial material used in the production of shoes and other leather products. Apart from this, it is a well-appreciated delicacy in Southern Nigeria both by the rich and poor. The diagram on the next page provides graphical details on the various operations encompassed in the cattle and sheep industry.



A well-managed Uch ram (adult male sheep)



A well-managed West African Dwarf Billy (adult male)

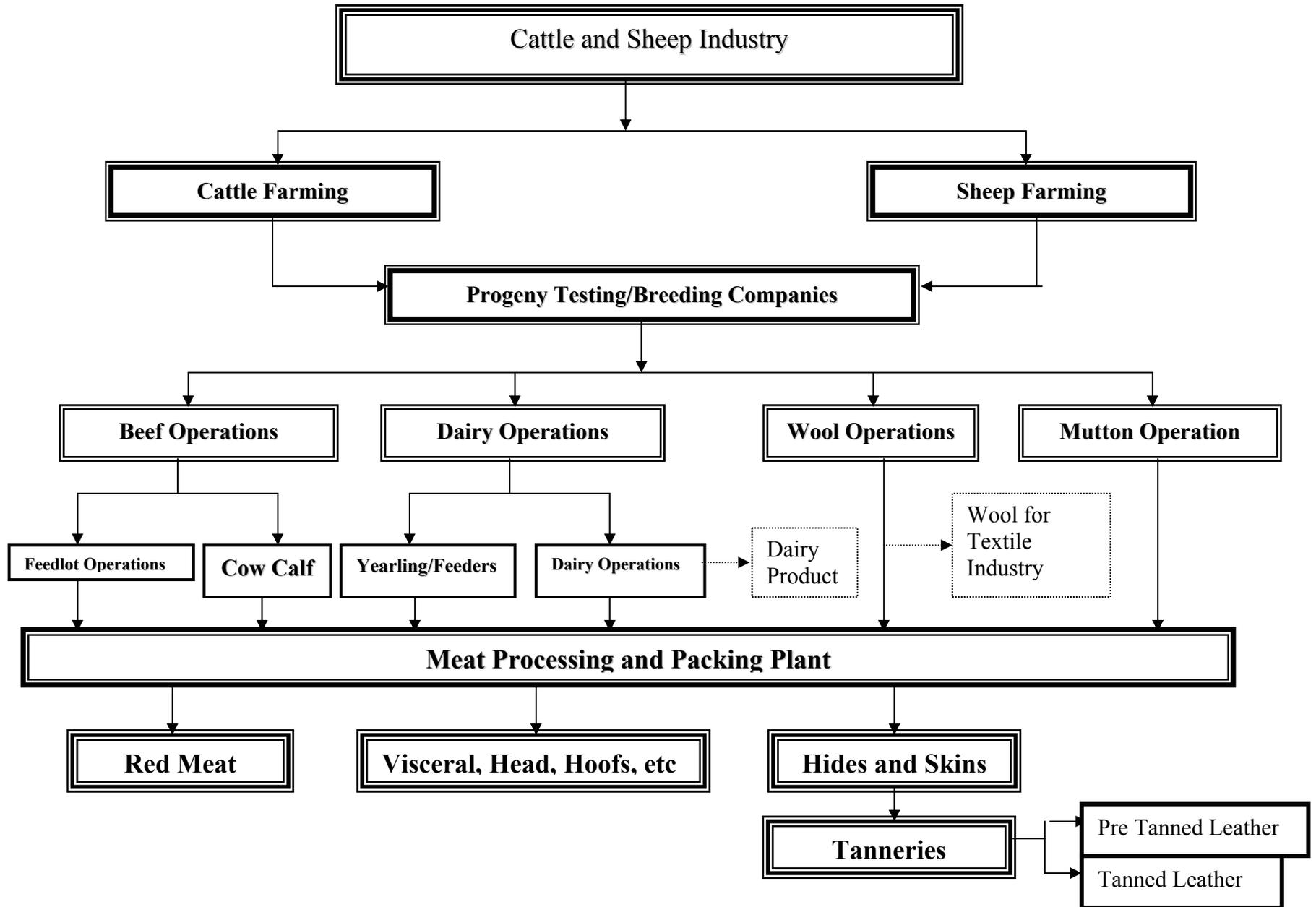


A White Fubri bull



A flock of Yankassarum (sheep)

Figures 11 – 14: Large farm animals: the traditional sources of good quality hides and skins.



APPENDIX III: INDUSTRIAL PRESERVATION PROCESS

Animal skin becomes leather through a number of complicated steps. First, the majority of animals are slaughtered for the meat, so the skin is of secondary importance. To stop it putrefying, i.e. decaying, the skin must be preserved. This is done by adding common salt to the skins and piling them on a pallet. The salt kills the bacteria involved in the putrefying process. Once preserved, the skin is taken to a tannery where the hair and any remaining flesh have to be removed. The skin is then soaked in water to re-hydrate it and remove the salt. It is then fleshed on a machine to remove lumps of flesh, dung, etc. Hair is removed by treating the skin in a drum with sodium sulfide and calcium hydroxide (lime). The sulfide attacks the keratin in the hair and dissolves it. The reaction only occurs at alkaline pH, which is why the lime is added. This process is called liming. Once the hair has been removed (after 16 hours), the pH is then reduced. This process is called de-liming and it involves pumping in Carbon dioxide into the drum while it is turning. Carbon dioxide is an acidic gas and it has the characteristics of lowering pH to about 7. At this point enzymes are added to clean out the remaining proteins, which are not required. All that the tanner wants is collagen. The other skin proteins such as Elastin and Keratin have to be removed. This is known as the bating process.

After bating, the skin is pickled in the same way as you would pickle onions, using salt and vinegar. In this case salt and sulfuric acid are used, but the principle is the same. This does two things: it preserves the skin again and gets the collagen ready for tanning, the most important step. Tanning the collagen stops it from putrefying forever. If the skin is left in the salted state, it would eventually putrefy and of course, unusable for wear. Once tanned, the skin can be worn. Tanning is done in drums with aqueous solutions. The usual tanning agent is Chromium (III) salts. These give the skin stability against heat, light, perspiration etc., and make the skin moldable and useable. It is possible to use the skin, depending on its source, for anything from gloves to industrial belts, car upholstery to the finest shoes; all are processed in the same way. After tanning, which takes a few hours, the skin is a light blue color. It is then put through a wringer to remove excess water and then re-tanned, dyed fat-liquored and finished. Re-tanning modifies the properties of the leather to suit the conditions of use while dyeing changes the color to desired color. Fat liquoring adds fats and oils to the skin. In the previous processes all the natural fat is lost, so the skin, if dried, would dry hard. Fat liquoring makes the skin soft. The skin is then dried and finished by adding a protective coat to stop it from getting dirty, etc. The process from beginning to the end takes about 2 weeks, if done continuously. Usually though, the batch process is done in stages with the skin being left until needed for an order, etc.



Figure 15: Mario Jose Tannery: An export oriented tannery located in Kano.

Homestead Hides and Skin Tanning

The leather that is sold in stores is not naturally tanned. It is usually chemically tanned with chromic acids. These acids are very cheap to use but unfortunately are quite toxic and make inferior leather. One can make soft, washable leather with emulsified oils and wood-smoke. This is commonly known as brain, smoke or Indian tanning. Animal brains are traditionally used as the source of emulsified oils; hence the name, but one can also use eggs or a mixture of soap and oil. Brain tan is ideal for clothing, bags, beadwork and other items such as shoelaces, potholders, hair ties, etc. Hides can also be tanned by soaking them in tannic acids derived from tree barks and certain plants. This is known as bark tan. Bark tan makes a stiff, solid leather that is useful for saddles, holsters and stiff bags.

APPENDIX IV: PROJECT BACKGROUND

Before independence, Nigeria's economy was largely sustained through agricultural exports. Major industries such as Unilever Plc, Paterson Zochonis Plc, etc., depended on agricultural raw materials from Nigeria and other Commonwealth nations in the tropics and export trade in agricultural commodities accounted for over 60% of Nigeria's export earnings. Apart from this, the sector also accounted for a similar proportion of the nation's Gross Domestic Product (GDP) and it was the largest source of employment. In the 1970s and 1980s, a combination of increasing petroleum oil production and rising prices brought easy and windfall earnings, which diverted Nigeria's attention and encouraged the neglect of agricultural exports. The country invariably lost its competitive advantage in certain commodities, which it painstakingly established.

While one cannot blame agricultural neglect alone for the nation's dwindling export trade in agricultural commodities, other factors such as increase in industrial activities in the country, government policies on local value added commodity processing, finance, pricing, etc., have all contributed to the weakening of the nation's capacity to participate effectively in the commodity export trade. Over the years, there have been different agricultural policies targeted at improving the performance of the agricultural sector and reviving export trade in semi-processed agricultural commodities. These policies focused mainly on:

- Provision of self-sufficiency in food and raw materials for industries;
- Improvement of the socio-economic welfare of rural people engaged in agriculture; and
- Diversification of the sources of foreign exchange earnings through increased agricultural exports arising from adoption of appropriate technologies in food production and distribution

While the policies are sound, until the recent return to democratic governance, the will and strategies to implement them had largely been absent during years of military rule. The emergence of democracy required the institutionalization of civil governance structures and the revival of the productive value-adding sector of the economy, which is so strategic in addressing the multifaceted socio-economic problems confronting the nation.

Nigeria plays a strategic role in the stability of sub-Saharan Africa and the challenges associated with rebuilding the economy of such a huge nation whose economy had been mismanaged and ravaged as a result of poor governance are enormous.

The United States Government through its Agency for International Development (USAID) is assisting the Nigerian Government and its people rebuild the socio-economic and political structures of the nation. Accordingly, a strategic plan, which focused on five strategic goals, was developed. These strategic goals are to:

- a. Sustain Nigeria's transition to democratic governance;
- b. Strengthen Nigeria's institutional capacity for economic reform and enhance its capacity to revive agricultural growth;
- c. Develop the foundation for education reform;

- d. Increase the use of family planning, maternal and child health services and HIV/AIDS/STD preventive measures; and
- e. Improve management of local infrastructure and the energy sectors.

To help revive agricultural growth, the Government of Nigeria (GON) requested USAID/Nigeria's assistance to determine which agricultural products have the greatest potential to increase foreign exchange and create jobs. The GON is convinced that a realistic business plan to maximize Nigerian's agricultural potential must be based on sound information, an analysis of what actually exists, and a clear understanding of the constraints in the sector that inhibit the GON and the Nigerian private sector from capitalizing on these opportunities.

Chemonics International is working with USAID/Nigeria and Government of the Federal Republic of Nigeria (GON) to meet these objectives. The following three-phase approach was designed to achieve these objectives:

- I. Assessment of the Global Market for Agricultural Products;
- II. Evaluation of Nigeria's Agricultural Sector; and
- III. Agricultural Industry Action Plans

The final result will be the submission of a number of Industry Action Plans (IAPs) that will be implemented as part of a comprehensive agricultural competitiveness program that would be supported by USAID and other international donors as well as the international and Nigerian private sectors.

- I. Assessment of the Global Market for Agricultural Products.

The first phase was a broad overview of the world market for agricultural products, including products that are currently, or potentially could be, produced in Nigeria. The global markets, including the Africa region, were evaluated using a rigorous methodology and evaluation criteria that was developed by consultants experienced in global markets for tropical agricultural products. For example, the set of criteria included existing consumer demand, trends in market shares, capital requirements, product distribution, commodity prices and volatility, financial returns, etc. The results of this assessment produced a prioritized list of the most promising global marketing opportunities for current and prospective Nigerian agricultural export products.

- II. Evaluation of Nigeria's Agricultural Sector: "The Agriculture Commodity Summit."

In collaboration with the Project Coordinating Unit (PCU) of the Federal Ministry of Agriculture, and the Nigeria Export Promotion Council (NEPC), Chemonics International held a stakeholders' summit on Nigerian agricultural exports in Abuja in January 2002. The summit was attended by more than two hundred participants and stakeholders who helped to identify and recommend, for further study in the Agricultural Industry Action Plans, those commodities that had the greatest potential for creating increased economic growth, external and internal trade, opportunities for employment and increased income and wealth for Nigeria.

Facilitated by local and expatriate consultants, the summit pulled together local experts, stakeholders and public officials who jointly developed a comprehensive list of opportunities matching existing and potential Nigerian agricultural products with current and forecasted world demands. The summit combined completion of questionnaires (during the summit meeting) with the discussion of the rank-ordered list of commodities for domestic production and export potentials.

The summit also created a high profile public and private sector buy-in for this approach to agricultural competitiveness and demand for the “downstream” activities’ industry action plans, and possible constituencies/partnerships for the eventual implementation of the action plans.

From the summit, the following commodities were chosen for in-depth study:

1. Ginger
2. Gum Arabic
3. Sesame
4. Cashew
5. Leather/Skins
6. Marine Products (prawn farming)

Following the summit, a team of consultants including expatriate and local industry experts conducted “validation visits.” These visits were to selected sites, and stakeholders (exporters, processors, producers, etc.) and were designed to confirm information and gather data necessary for preparing useful action plans.

III. Industry Action Plans

Industry Action Plans are being developed for the most promising commodities selected from the agricultural commodity summit. These action plans or “road-maps” will identify weak links in the commodity chain that limit competitiveness and suggest practical steps for overcoming them. This analysis includes private and public sector individuals most active in the selected commodity. The plan will focus on actions for the private sector to follow, particularly individuals interested in establishing and/or expanding their presence in the export of Nigerian agricultural products. The action plan will also identify interventions appropriate for USAID and GON support to both increase and accelerate private sector agribusiness activity within the commodity chain.