

REAPING POTENTIAL ECONOMIC BENEFITS FROM THE LEATHER VALUE CHAIN IN MALAWI: ISSUES AND AREAS OF INTERVENTION

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ABSTRACT

Malawi's leather value chain has massive potential to significantly contribute to economic growth and socio-economic prosperity of the economy through expansion of the export base, increases in job opportunities and income generation for the small and medium enterprises, among others. On the basis of the foregoing realisation, this study was conducted with the general objective to understand specific needs of micro, small and medium enterprises in the leather value chain as they relate to sustainable enterprise growth and development. The study was conducted in six sampled districts, two in each of Malawi's geographical regions: Blantyre, Chikhwawa, Lilongwe, Dowa, Mzuzu and Mzimba. The districts were purposively selected on account of the magnitude of economic activities related to the leather industry. The study employed both qualitative and quantitative data collection and analysis methods. Among other findings, the study uncovered that poor quality and quantity of raw hides and skins, lack of basic tanning industry in the country, unavailability of and restrictive financing to improve product quality and quantity in order to attract increasing number of customers to buy, are but some of the hindrances to the growth and development of small scale businesses in the leather industry. The study, therefore, recommends that policy and practice should target at addressing such inadequacies if the industry is to operate close to full capacity.

INTRODUCTION AND CONTEXT

Recent major trends in the leather industry on the global scene suggest that despite threats of rapid population growth in developing countries, the leather sector will continue to grow and support economies much more than in developed countries (UNIDO, 2010). It is projected that demand for red meat will continue to grow, stimulated particularly by rising incomes and wealth. Such prospects will have a corresponding increase on leather as a by-product. For

Government of Malawi, wealth creation remains the most important priority. Malawi Growth and Development Strategy (MGDS), a single reference and decisive document designed to be followed by all stakeholders, states that wealth creation will be attained through sustainable economic growth and infrastructure development. As mentioned, wealth creation and accumulation in turn triggers demand for meat and supply of leather.

Malawi's leather value chain has a potential to significantly contribute to the economic growth and socio-economic prosperity through expansion of the export base, increases in job opportunities and income generation for the small and medium enterprises, among others. It is estimated that based on its animal resource base of goats, bovine and sheep, the leather value chain has the potential of grossing US\$102 million dollars (GoM, 2015). However, this is only possible if all hides and skins produced in Malawi are processed into finished goods. Further, functioning at full capacity, the value chain could contribute 3.9% to Malawi's Gross Domestic Product (GDP). It is on account of these inherent growth prospects and the desire to understand the position of Micro, Small and Medium Enterprises (MSMEs) in the leather industry that this needs assessment exercise was conducted. This assessment used both qualitative and quantitative data collection methods.

Objective of the Study

The general objective of the study was to understand specific needs of MSMEs in the leather value chain as they relate to sustainable enterprise growth and development. Specific objectives include:

- To identify and locate micro, small and medium entrepreneurs in the six districts along the leather value chain
- To identify MSME needs as they relate to business management, value addition, markets and marketing and overall business growth
- To investigate current practices, processes and activities involved in MSME networking, organization and institutional arrangements for growth

Rationale of the Study

This study is justified on the basis of generating evidence for planning and designing of tailor-made intervention in the leather industry. The industry is one of the sectors that have suffered from a dearth of empirical evidence. In order to address the challenges that are faced and the needs that MSMEs have, it is important to come up with solutions that are based on evidence. The findings of the study will also ensure that progress and impact are measured by tracking set indicators. The Malawi economy is facing enormous challenges in acquiring optimum inherent gains of the leather value chain. Successful interventions in the sector can only be achieved if they are evidence-based.

METHODOLOGY OF THE STUDY

Study Areas

This evaluation was conducted in six districts, two in each of Malawi's geographical regions: Blantyre, Chikhwawa, Lilongwe, Dowa, Mzuzu and Mzimba. The districts were purposively selected because of the magnitude of economic activities related to the leather industry. Mzuzu has been considered as a separate district in this study because of its size and the desire to collect data from both rural and urban districts. Anecdotal data shows that manufacturing of footwear and other leather goods is mostly urban based while animal farming is primarily done in rural districts.

Study Design Components

This assessment used both qualitative and quantitative data collection methods. A qualitative design was important in order to better understand issues affecting the MSME leather value chain and general context. Such a design provides an opportunity for informants to explain issues in more depth. It further provides for follow-up on answers provided by informants. The quantitative aspect, on the other hand, allowed for easy quantification and presentation of findings from each of the participants thus increasing easy comprehension of the issues under focus. A combination of both methodologies generally increased the ability to triangulate findings but also to understand common perspectives using different approaches.

Sampling

The identification of informants in both qualitative and quantitative components of the study was purposively done. We employed Snow-balling as a first method for recruiting the first

participants. Thereafter, we were able to locate appropriate participants of the study according to set characteristics: small scale leather industry players participating at any level along the value chain. This approach was the most convenient considering the dearth of information on MSMEs in the leather sector.

Data Analysis

Qualitative data was analysed by using content analysis. The method allows for identification and categorization of key themes. Patterns are then drawn across the data in order to develop meaning from the data. Quantitative data was analysed using the Statistical Package for the Social Sciences (SPSS).

RESULTS

The findings presented are based on the analysis of the whole value chain. The findings are mostly generalized because it was difficult to isolate the players according to specific groups because they were not organized into cooperatives. As a result the closest we have gone in grouping them is by looking at their positioning along the value chain. In some cases they have been grouped according to districts. Grouping the respondents is useful in the sense that it simplifies the task of recommending interventions. It would not be possible to suggest a recommendation for each and every respondent separately.

Background Characteristics of the Respondents

Analysis of demographic and socio-economic characteristics of respondents was considered because they may have implication on the MSMEs' choice of economic activity or business to venture into as well as on the level of the value chain to participate. Table 1 below dissects the composition of study participants from each of the six districts. The rest of the findings are mostly based on five of the districts because Chikhwawa was used as a pilot district. As highlighted these are areas considered to be of high levels of economic activities on raw, hides and skins and footwear and leather goods. The study therefore sought to collect useful data from such districts. The study also investigated one Veterinary officer in each of the districts in order to understand MSME needs from their perspective.

Table 1: Participant Composition across Study Area

District	Number of Participants
Blantyre	13
Dowa	8
Lilongwe	12
Mzuzu	10
Mzimba	6
Chikhwawa	25

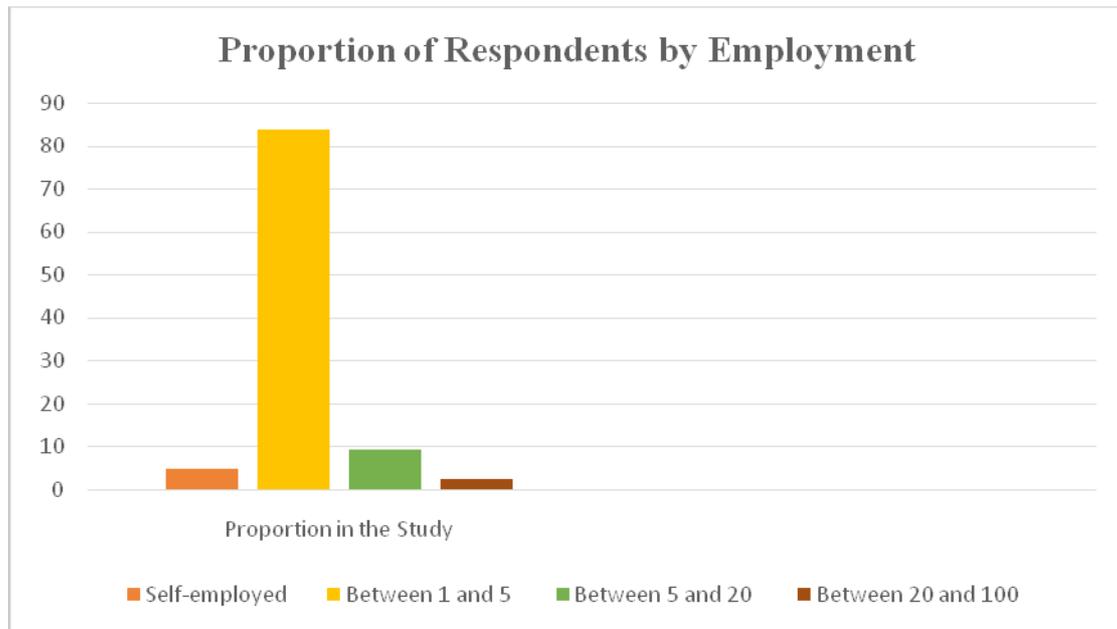
Gender of the Respondents

In terms of sex, 97% of participants were males as compared to 3% who were females. It was reported during several in-depth interviews that the leather sector is male dominated. Respondents stated that the majority of females participated as livestock farmers and a few others in the processing of leather into footwear or other leather goods products. Participants claimed that footwear and leather goods production was too involving and would be an additional burden on women most of whom play multiple reproductive roles in the society. This was also evident during the study because despite efforts to ensure the inclusion of many female participants, few as seen were available to participate.

Distribution by Employment

The study investigated the number of employees by each of the business persons participating in the study. Number of employees is one of the determinant factors for categorization of small businesses into micro, small, and medium enterprises. It is also an indication of business growth and levels of economic activity. The graph below displays the distribution. Micro-enterprises dominated the survey respondents with over 80% of the participants. Less than 5% of the participants are into medium level of the business.

Figure 2. Proportion of Respondents by Employment



Leather Business Context

This section describes some aspects of the environment in which MSMEs in the leather industry operate. The purpose was to have an understanding of both the internal and external business contextual factors which may have implications on the performance of the businesses. These include the availability of markets, networking and access to factors of production. However, the findings on characterisation of the environment are not exhaustive of indicators of a business.

Availability of Markets for Raw Hides, Skins and Leather Goods

Business marketing is a single most important technique for the transformation of small businesses into productive ventures. It is an engine room that contributes to increases in sales by keeping and attracting clients. An aspect of marketing as a process is determination of a reliable market for products. Respondents in this study were asked ‘do you have a reliable market for your products?’ A total of 58.1% of the respondents reported that they had reliable markets for their products as compared to 41.9% who stated that they did not. It is important to note that the majority of those that reported to have had ready reliable markets were livestock farmers and traders in raw hides and skins. Butcheries and mobile markets are the ones that offer ready markets for the farmers. Raw hides and skins find their way out of

butcheries and farmers through intermediaries who visit trading centres and villages in the districts visited collecting hides and skins.

Identification of a market for footwear and other leather goods is one of the major challenges commonly reported to be faced by small entrepreneurs. The study uncovered that stiff competition with traders selling imported second-hand shoes and leather products (locally known as *kaunjika*) posed a big challenge to securing reliable and ready markets. As it shall be learnt later, such a competition is underlined by the fact that genuine leather for the various products can only be obtained from outside the country hence raising the cost of doing business. Tanning does not take place anywhere in Malawi.

Access to Factors of Production

Business capital in all forms is critical for the efficient operation of any business. The study investigated the availability of and extent of access to factors of production by MSMEs in the leather industry. Players in the leather industry have limited access to affordable and adequate financing in part because of the absence of support financial institutions particularly supporting the sector. About 92% of the respondents stated that they had not had any opportunity to obtain a loan, credit or funding from any source to boost their enterprises. Micro-enterprises provide loans to businesses they are sure will be able to generate as much for repayment. In addition, the underdeveloped leather industry faces huge challenges of competition from similar trades.

Leather industry relies heavily upon the use of machinery and other accessories and tools that are not affordable to poor MSMEs. In actual fact some of the equipment has to be imported from other countries. It is difficult, therefore, for the majority MSMEs to afford. Lack of finances has spiral effects on most of the factors affecting productivity. Lack of appropriate tools has been blamed for poor slaughter techniques resulting in poor quality hides and skins. Poor infrastructures and facilities have also been cited commonly as being responsible for reduced quality and quantity of raw hides and skins in the country.

Access to Business Networking

Strategic linkages among players as well as with stakeholders are key to sustaining small businesses' growth through various streams of benefits including business information sharing, access to finances and expertise. Participants in the study were asked if they were affiliated to any association, network, and if their business was registered. Among all

respondents throughout the six districts, only three small businesses reported to have been registered with the Registrar General. The majority of the respondents who reported that they did not register mentioned the following as key reasons for not registered.

- i. Lack of knowledge about the registering body. Few businesspersons in rural settings are aware of the need to register their business with the authorities. The absence of functional veterinary extension structures at the local level compounded this problem.
- ii. Cost of registration is perceived to be high for some MSMEs. Misinformation about how much would be incurred in case of registration has fuelled negligence to register among businesses.
- iii. Perceived value of registering MSME owned businesses is low. MSMEs do not believe their businesses are worth registering because no benefits to their can be attributed to such registration.

In terms of affiliation to business association, 28% of the respondents reported to be members of a yet-to-be-launched leather industries association. All of these respondents were from the three cities visited. None of the respondents in the rural districts visited reported to be aware of such an establishment. The major reason for non-affiliation is lack of adequate information about the existence and objectives of the association. The majority of the respondents stated that they did not belong to any other business networks. Inadequate information sharing and limited collaboration work to limit the willingness and ability of MSMEs to associate themselves with stakeholders.

At present no platform has been created to promote small businesses in leather industry across the country. An association is in its inception but as respondents reported ‘it has not reached all leather players. The activities and processes that led to the formation of the association did not take on board the views of all players. In addition, information dissemination about the body has not been as effective. Leather players scattered across the country work in their backyards as isolated individual MSMEs. No establishment of well-coordinated cooperatives exists in leather industry at present. The absence of cooperatives among small scale players has meant foregoing benefits of group purchase of materials which is often negotiable and less costly. In addition they cannot supply products in bulk. At all levels of the value chain, cooperatives have not been formed, all players operate in isolation.

Value Addition Needs

Animal skin, an initial raw material for leather production, is often generated as a by-product in animal farming. Hides and skins only become primary products upon reaching the tanning industry. Priority products in animal farming are meat and milk. There is thus a clear missing link between the point of slaughtering livestock and acquisition of finished leather for production of footwear and goods. Value-addition has known benefits of creating employment, attracting investments and increasing the contribution to the country's GDP. Adding value to products also increases the potential for strengthening collaboration among value chain actors. Limited or complete lack of collaboration between value chain players in Malawi has been identified as one of the key challenges affecting productivity.

Despite this high featuring of value-addition in livelihoods, this study, however, found that 82% of the participants did not know what value addition meant. Many of those that were ignorant were actors on the lower end of the chain. Manufacturers who imported finished leather formed the majority of those that stated that they knew what value addition meant. They claimed that they were able to change the state and composition of leather into user friendly commodities/products. Others displayed how they had been able to brand their products such as shoes. About 58.1% participants reported that they had not received any training on value addition compared to 39.5% who stated that they had. The most mentioned sources of training included NGOs and UNIDO with the later also providing equipment for the value addition. Participants were asked to state whether they believed they were skilled enough in value-addition regardless of whether they had received training before or not. The following table is a summary of the distribution. As can be seen, 87% of those that were trained reported to have been skilled while 24% of those that were not trained reported to have not been trained. Such findings may be an indication of the quality and relevance of the trainings delivered.

Table 3: Respondents Trained and Skilled in Value-Addition

	Not Skilled	Skilled
Not Trained	76.90%	23.10%
Trained	13.30%	86.70%

Presented below is a summary of key factors found to have an effect on value addition all stages of the chain identified:

- i. Poor quality and quantity of raw hides and skins. Poor health of animals, absence of recommended standards for preservation and slaughter and lack of proper tools for use during slaughter were the most common reasons for poor quality of hides and skins. Reduced quantity of raw hides and skins was attributed to lack of knowledge on the benefits of value addition to the products hence loss through disposal in the homesteads in the backyard.
- ii. Lack of basic tanning industry in the country. Door to door collection of raw hides and skins is widely regarded as a not-so-viable business because these fetch low prices due to low demand. This is regardless of the quality of the product.
- iii. Limited access to finances, equipment and tools to aid in adding value to the products. The majority of the respondents stated that they were too poor to afford the purchase of materials that would improve the value of their products on their own. None of the respondents reported to have accessed loans or credit from any financial institutions or micro-lending bodies for business operation.
- iv. Lack of proper facilities and infrastructures that would be conducive for value-addition. The study found that most of the homesteads/slaughter houses that were used for harvesting were simply makeshifts with little or no space for preservation or curing of the hides and skins.

Business Management Practices and Techniques

The study found that management at the lower level of the chain is mostly traditional with little innovation in animal husbandry, slaughter, and caring for hides and skins. MSMEs in the leather sector are short of business managerial and technical skills for improved performance. This was evident when participants were asked if they are aware of basic business management processes that promote business growth. For example, about 54% of the respondents stated that they did not know how to develop a business plan. The majority reported that they had never been taught by anyone on how to develop such plans hence their ignorance. For some few, however, a business plan was mostly ‘ideal for well-established big businesses because they had a lot of activities running and cash flow’ (Interview with participants in Dowa). In addition, the study revealed limited awareness of the existence of business development service providers. Across all the stages, it was clear that the majority of

players in the leather chain are not in any interaction with business development service providers.

Market Research Needs

In order to determine market research knowledge and skills, the study explored the extent to which respondents were able to determine demand for their commodities. The underlining premise is that traders who are able to figure out the needs, preferences and expectations of their clients will be able to tailor their businesses to meet these. One way of being able to do this is by conducting a market research, systematic or otherwise. About 74% of the footwear and leather goods business-persons self-reported that they were able identify the needs, preferences and expectations of their customers through direct interaction with the customers.

It was found that players are able to engage existing and potential clients on the specifics of the product they would require and make for them such. This was often possible where customers followed the MSME owners in their business localities. Very few among the respondents reported to have received any special training on conducting market research or customer identification. The study found that for some traders' clients such as NGOs or vendors could make special orders well in advance for specific types of leather goods.

However, the story is not uniform across all stages of the value-chain. Participants in Chikhwawa stated that most of the hides and skins that are produced in the district are just wasted away following rejection from Blantyre traders who demand certain standards that most producers are not able to meet. High quality hides and skins require special treatment upon slaughter. Traders were told to apply large amounts of salt and other chemicals for prolonged preservation and to enhance ease of use.

Throughout this study however, it is evident that care for the hides and skins goes beyond application of salt after slaughter. Veterinary officers in Chikhwawa report that the actual grazing and taking care of animals before they are slaughtered is often wanting. Livestock are not properly taken care of in terms of disease or infection management. During slaughter, very few pay attention to the quality of the hides or skins as most come out with marks and holes. The study also found that some farmers in the study areas 'are not aware that hides and skins can be exchanged for money hence being disposed of anyhow' (Respondent from

Jenda, Mzimba). Thus animal health was reported to be a cause for poor quality raw hides and skins

Support Needed for Customer Satisfaction

In order to meet the expectations of their customers, the study unearthed the following aspects requiring attention:

- i. Skills transfer on conducting market assessments aimed at identifying what goods customers needed. The majority of those that mentioned this as a challenge reported that they lacked the know-how of breaking into the customer world when there was no personal relationships in the first place;
- ii. Finances to improve product quality and quantity in order to attract increasing number of customers to buy. Participants detailed that sometimes potential customers were simply not interested in the goods because of poor quality hence all that was required was to improve on quality of the products first.

CONCLUSION

This study was set to unearth key issues within the leather industry especially as they relate to MSMEs. The findings suggest that while there is increasing opportunity for growth in the sector, progress is hampered by certain key challenges. Table 4 that follows has summarised the hindrances to potential growth. The study found that lack of organizational structure has brought about lack of coordination among value chain actors in the leather industry. In addition, limited access to productive resources, services and information has worked to produce negative outcomes across all stages of the value chain. At the lower end there is increasing wastage of raw hides and skins partly because of an absence of tanning in the country but also because the majority of the people in the rural districts visited do not have an idea of the value of the raw hides and skins.

Table 4: Summary of Findings

Summary of Key Findings	
1.	There is a high prevalence of poor quality of raw hides and skins which is in turn attributed to poor animal health, lack of skills for preservation, limited awareness of the value hides and skins and poor market structures
2.	Leather MSMEs are not organized into cooperatives. This increases challenges of coordination, business growth, and access to resources
3.	MSME players in the leather industry face increasing competition from players in similar trade
4.	There is limited access to finances such as loans and credit from individuals
5.	There is a general lack of institutional support for small scale leather value chain actors resulting in lack of coordination and support at national level
6.	There is a dearth of business management skills and techniques in the areas of business planning and market research among others
7.	Limited value addition along the chain is partly caused by high cost of doing business
8.	Limited awareness about networking and organizational set-up within the leather industry

RECOMMENDATIONS

The following recommendations are made based on the findings of this study. Further review of the literature will be needed to buttress the design of intervention and programming.

- i. Initiate awareness campaigns aimed at sensitizing leather players at all levels of the value chain on the need to establish and belong to business cooperatives or clusters through which they can easily be promoted;
- ii. Lobby for the provision of appropriate tools for slaughter to be distributed to cooperatives in strategic arrangements that will not in turn be wasteful;
- iii. Identify appropriate channels of assisting MSMEs financially such as through linking them to financial institutions;
- iv. Support the delivery of training directed at imparting (1) value addition skills among butcher men, raw hides and skins traders, and (2) business management skills and market research skills among footwear producers;
- v. Support the strengthening of a nationally based association of leather players and advocate for its support from key stakeholders.

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