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Technical Assistance to Stimulate Applications for the SME Competitiveness Grant Scheme

Technical Report: Leather Sector Includes a Value Chain Analysis and Proposed Action Plans

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**Technical Report
Leather Sector
Includes a
Value Chain Analysis
and
Proposed Action Plans**

**Intended to be used as Source Material in the
Development of Concept Notes**

Bangladesh INSPIRED

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1.0 Acronyms

BFLLFEA	-Bangladesh Finished Leather, Leather Products and Footwear Exporters Association
BIO	-Business Intermediary Organization
BLSC	-Bangladesh Leather Service Center
BMO	-Business Membership Organization
BPC	-Business Promotion Council
BPKMSS	-Bhairab Paduka Karkhana Malik Somobay Somity
BPPS	-Bangladesh Paduka Prostutkarak Samity
BTA	-Bangladesh Tanners Association
CFC	-Common Facility Centre
COEL	-Centre of Excellence for Leather
DOE	-Department of Environment
EU	-European Union
GDP	-Gross Domestic Product
GIZ	-Gesellschaft für Internationale Zusammenarbeit
GOB	-Government of Bangladesh
GSP	-Generalized System of Preferences
ILET	-Institute of Leather Engineering and Technology
ILO	-International Labor Organization
ITC	-International Trade Center
LDC	-Least Developed Countries
LFMEAB	-Leather & Footwear Manufacturers & Exporters Association of Bangladesh
LSBPC	-Leather Sector Business Promotion Council
LTSE	-Leather Technologist SME Entrepreneurs
MOC	-Ministry of Commerce
MOE	-Ministry of Education
Mol	-Ministry of Industry
MSME	-Micro Small & Medium Enterprises
PPP	-Public Private Partnership
PRICE	-Poverty Reduction by Increasing the Competitiveness of Enterprises

QC	-Quality Control
R&D	-Research & Development
RMG	-Readymade Garments
SCGS	-SME Competitiveness Grant Scheme
SDC	-Swiss Agency for Development & Corporation
SEDF	-South Asian Enterprise Development Facilities
SLG	-Small Leather Goods
SME	-Small & Medium Enterprise
SOP	-Standard Operating Procedure
SWOT	-Strength Weakness Opportunity Threat
USAID	-United States Agency for International Development
TVET	-Technical Vocational Educational Training
TRTA	-Trade Related Technical Assistances
VCA	-Value Chain Analyses

2. 0 Executive Summary

In Bangladesh the leather industry is well established and ranked fourth in terms of earning foreign exchange. In consideration of being a value added sector the (Government of Bangladesh (GoB), Ministry of Industry (Mol) has declared it as a priority sector. The leather products sector have huge opportunities in generating employment , entrepreneurship and investment by increasing export of higher value added products rather than finished leather and by utilizing locally made raw material (finished leather) to convert into more value added leather products (including footwear and other leather goods).

Statistics prepared by Export Promotion Bureau of Bangladesh for the Financial Year 2011-12, the leather sector grew by 17.5 percent and earned \$765 million in revenue. Of this \$434.8 million was attributed from leather products, accounting for approximately 57 percent of the total revenue.

The leather sector includes 220 tanneries, 3,500 MSMEs and 110 large firms² of leather products controlling more than 90% of the export market. Most of the enterprises are located in Dhaka, followed by two big clusters at Bhairab and Chittagong. The sector generates direct and indirect employment for about 850,000 ³ people, including a significant number of women, particularly in the leather products industries.

The larger enterprises like BATA, Gallerie Apex, Bay, Jennys are controlling the domestic market of high ended leather products but they are mostly dependent on imported products. So there is an immense opportunity for the MSMEs to provide up to USD 150 million in import substitution via becoming subcontractors for these very large global enterprises . MSMEs themselves are unable to function as important market players due to the following reasons:

- Absence of clustering strategy for joint production and retailing by MSMEs
- Inefficiency in production
- Lack of skills
- Limited access to modern machinery
- Competition from cheap/illegal imports,
- Limited access to market information and market linkages
- Lack of confidence by consumers about locally produced products
- Unable to raise adequate financing

Historically MSMEs have failed to reach the next level of the value chain due to the above mentioned reasons. Efforts from all available resources will be required to turn

these actors in the value chain for leather within Bangladesh into sustainable stakeholders.

The action proposed in this technical report responds to the needs identified in the terms of reference by directly contributing to this segment of the leather products sector. The proposed actions will facilitate the MSMEs in the three clusters to produce quality products through best practices and increased productivity and this will also assist in substituting import and expanding export.

The proposed action takes into consideration the key objectives set forth under this call for proposals and focuses on consolidation of target clusters. These include direct technical support to MSMEs to overcome barriers to growth through establishment of two facility centres located in two regions. These facilities will also include training, consultancy, technology transfer and supervision in key areas including design, innovation, marketing, quality management, and compliance to international standards and related development issues. Key areas will be networking among business support organisations to share the best practice between themselves for the benefit of MSMEs in the regions. We will also encourage their linkages to international and EU-wide networks to gain access to the latest innovations and technological support.

The leather products sector routinely received technical assistance on skill development, market linkages, process up-gradation, value chain study and production manual from different donor agencies like USAID-PRICE, ILO-TVET program, SDC, GIZ, ITC-Geneva. The proposed actions in this report will add value to the actions already initiated by these agencies due to establishment of CFCs. MSMEs will get better opportunity for utilizing their acquired knowledge received from donor agencies and will be able to go into production of higher value added products.

2.1 Major Findings:

- a. There are 3 subsectors – i) Leather Tanning, ii) Leather Footwear, iii) Leather Goods. No other sub sector emerged yet.
- b. 90% of basic raw materials i.e. hide locally available. About 220m sq feet of leather of high grain produced locally.
- c. The sector is very much akin to the RMG sector, but there is far greater scope of value addition ~90% as opposed to RMG where value addition scope is ~40% as basic raw materials for leather sector are locally available. RMG is the single largest contributor to export about USD over 20b; however, basic raw materials are imported.
- d. 50% of leather is being exported in the form of semi-finished and finished leather losing the value addition opportunity. Rest 50% is being converted into footwear and leather products for low-end market.

- e. There is an enormous scope for entrepreneurs and investors. The sector is still catering to the low-end export market. In order to advance it must move to the next levels.
- f. Business friendly policy: The sector needs business friendly policy by Government to increase the investment.
- g. Needs more skilled workers and managers: Although there are unskilled competitive labour forces, there is shortage of skilled workforces, managers and entrepreneurs.
- h. Limited access to market - Bangladesh has a limited or small share (~0.56%) in the global business, so there is a tremendous opportunity to grow to capture more market share around the world. Vietnam can be a benchmark for Bangladesh who imports 70% of raw materials and exports Shoes and footwear products: USD 6.549b, Bags & leather handbags: USD 1.289b
- i. Limited access to market information: A deeper, more widely held understanding of market trend in terms of quality, fashion, leather product prices, competitors, importers and consumers' preferences, and anticipated regulations and restrictions needs to be developed in Bangladesh.
- j. Poor cooperation between firms/ stakeholders: strong connections between value chain members for a strong sector position, the stakeholders should hold their hands together for mutual benefits. Unfortunately this is still not the case.
- k. Low product quality and productivity: Product quality and overall productivity is always a concern for this sector. The product quality means the reliability and aesthetics of the finished products. It stems from the quality of basic raw materials including flayed hide/skin and chemicals, the overall workmanship and the machines/process used in the industry, so the sector still today target mostly the low end product market. The main reasons of poor quality are –
 - Lack of formal education of stakeholders / owners particularly of tannery
 - Lack of awareness of stakeholders involved in skin/hide flaying and preservation business
 - Limited awareness and knowledge of proper butchery and hide preservation among amateurs flaying during the (sacrificial) festival
 - Poor quality of finished leather
 - Higher prices of imported processing chemicals for hides/skins
 - Poor quality of raw materials.
- l. Outdated Machineries - Traditional status quo mind set of the owners; they lack information on appropriate machineries, sources, prices etc. They also lack awareness on incentives for product / productivity improvements, are using traditional tanning and manufacturing methods and process.

- m. Limited access to finance: Lack of awareness of FIs on potentiality and risks of this business. Collateral and complicated formalities to have finance.
- n. Pollution from Tanneries: The tanneries discharge nearly 22,000 cum of untreated and highly toxic (contains chromium) into the water body everyday. It produces 100 tons of solid waste everyday in the form of trimmings of finished leathers, shaving dust, hairs, trimmed animal flesh skins/hides to contaminate the soil and the water.
- o. Government allocated a dedicated land with CETP and necessary infrastructures in Savar, adjacent to Dhaka city, to address the major issues against environment, and to check pollutions by relocating Hazaribagh cluster to Savar
- p. Relocation and moving to designated modern tannery cite with existing outdated old machineries from the existing Hazaribagh cite is a big challenge, and a matter of big investments for the tannery owners.
- q. There is a Institute of leather engineering and technology producing 150 graduates every year. Many leather engineers get involved in the unrelated fields of their expertise as the sector is not nurtured or promoted.
- r. Although there is a tendency of rent seeking mentality, and avoiding entrepreneurial challenges, there are many educated leather technologists and business persons who can emerge as very talented entrepreneurs provided the sector is nurtured and facilitated with basic requirements of a sector.
- s. Lack of support and promotion for SMEs
- t. Absence of integrated policy; no long term policy regarding Common Facility Center (CFC)
- u. Lack of Accessories Manufacturers as backward linkage.
- v. Lack of skill development institutes
- w. Under activities and support from BIOs/BMOs
- x. Poor infrastructure (power), interrupted power supply
- y. Waste management is in shambles

2.2 Highlights- Action plan

The Action Plan is basically focused and oriented towards leather goods and leather footwear which have greater potentiality and achieve a very high growth rate. Tanneries will be relocated from Hazaribagh to a designated modern purpose-built site in Savar sooner or later, and many actions related to environment, waste management, green power/solar heating arrangement, process up-gradation matter can be materialized.

Through meetings and discussions with Associations, BIOs and information acquired through a long direct personal experiences, two viable and important action plans have been proposed in this report. These are:

Action Plan 1: *Support for the development of the SME clusters and value chain. (under lot 1B, intensive growth and consolidation clusters).*

Establishing Common Facility Centre (CFCs) equipped with training facilities offering facilities for sharing machining facilities, increasing product quality, skill training, entrepreneurship training, including management and environmental issues, R&D for designing, innovations, process and product technology development, prototype developments. As an interconnected action support for establishing linkages to domestic and EU wide networks to gain access to the market, innovations and technological support. This action is to assist the most value added sub sector leather products (footwear and leather goods) cluster SMEs to add value in the chain and graduate to become direct suppliers to the local and international market. It will not only nurture with very specific supports for the target groups, it will also be an incubator for the would-be entrepreneurs. There are many issues to resolve to give the sector a sound shape and boost, however, weighing the practicality and selecting the priority is important because many issues could subside by the treatment of core issues. CFC is such a core issue to be addressed.

Action Plan 2: *Strengthening the capacity of leather sector BIOs (under Lot 2, Support to skills development of Business Intermediary Organizations).*

Mainly there are three sub-sector BIOs (Bangladesh Tanners Association – BTA; Bangladesh Finished Leather and Leather Goods and Footwear Exporters Association – BFLLFEA; and the Leather Goods and Footwear Manufacturers Exporters Association of Bangladesh – LFMEAB). There are a few other associations they are representing the SME clusters also have roles in the leather sector, but for reasons of clarity are not covered in this document.

Training on skill development on lobbying for maximum facilities accorded to this priority sector and advocacy for TAX policies going against the interest of this sector to reform export friendly regulation and policy for the board members of these BIOs is a must. Moving the Tanneries to new modern purpose-built Tannery location in Savar from Hazaribagh is a big challenge and matter of capital investment where government's patronization is needed. Establishing knowledge and research centre in BIOs with expert resources will enhance their technical and communication knowledge. Additional activities like Network linkages building events with EU based associations, institutes and effective policy for ensuring sustainable environment and waste management issues should take under this plan.

3.0 Background

3.1 Background of the study

The Ministry of Industries of the Government of Bangladesh has selected a number of “booster” sectors for SMEs that have great potential to contribute significantly to the country’s economy. The sectors are: agro- processing, natural fibres, leather, plastics, light engineering, electronics, furnitures and home textiles. The *SME Competitiveness Grant Scheme* (SCGS) programme intends to support these chosen sectors through direct development projects and skills development and capacity building of related *Business Intermediary Organisations* (BIOs). As a part of this programme, the present project has been taken up to provide technical assistance to the Ministry of Industries of the Government of Bangladesh and the SME Foundation, so that the chosen clusters and sector business associations and other business organisations can submit high quality applications under the SCGS. This report is intended to provide the above mentioned assistance to the leather sector that includes three sub-sectors, i) Tannery, ii) Footwear, and iii) Leather Goods.

3.2 Scope

The leather sector has evolved to its present state during the last 5 decades; however, from early 90s it started gaining importance. This sector used to be represented by a few associations but most are active in maintaining memberships and internal activities. The contracted period of 15 (fifteen) days for preparing this report is too short for carrying out any elaborate survey or for making proper Value Chain Analyses (VCA). Therefore, most of the analyses were based on available data, VCA carried out by GTZ, data produced by different organisations – Government and Non-Government, meetings with associations and individuals, and from information gathered through earlier personal work of the consultant himself. The consultant has direct interactions with all three sub-sectors as a leather technologist, and experiences over a long time. He was involved with several surveys looking at problems and prospects of these sectors at earlier times, took direct part in lobbying with the Government for formulating favourable policies. Possession of this insider information, combined with that obtained through fresh meetings with the Associations and potential BIOs helped in identifying some very important and appropriate action plans under SCGS. The technical report will emphasise the existing constraints, obstacles and limitations and will formulate recommendations that will be the basis of the Action Plans for both the Clusters and the BIOs to prepare Concept Notes under SCGS.

3.3 Methodology

- Meeting with EU-INSPIRED representatives/experts and the Team Leader.
- Drawing information from different reports.

- Drawing from the consultant's own direct experience with clusters and enterprises level information.
- Meetings with Association representatives, BIODs, BMOs
- Submission of a draft technical report with main findings and recommendations.
- Production of Action plans for both selected clusters and BIODs to help preparation of Concept Notes under the SCGS.
- The whole activity was carried out under the guidance of the Team Leader.

3.4 Sources of Information

- Earlier survey results carried out by the various local and international consultants
- Sector study, reports and websites of donor agencies and Government institutes
- Relevant Bangladesh Government documents
- Personal interaction with entrepreneurs within and outside clusters of the sector
(Source references given in Appendix E)

3.5 Approach

Some information was already available in softcopy with the consultant through his direct involvement with this sector. These were updated through FGD, face to face interview and telephonic interview with stakeholders and BIODs. Based on this information, SWOT analyses were carried out on both the sub-sectors. The contracted time was not adequate to carry out studies to obtain Value Chain Analyses (VCA). VCA performed by an international body in 2006 was used as a guide. The VCA were updated through discussions with stakeholders in the Associations of the manufacturers. Through this exercise some areas were figured out for the ensuing action plans under the SCGS. The consultant met or talked to persons responsible in various organizations that were thought to be of importance as partners in the proposed projects. List of meetings are given in Appendix D.

4.0 Action Plans for Concept Notes

The purpose of this chapter is to give guidance how BIODs/BMOs and partners, can translate the information and findings in this report into Concept Notes.

4.1 Background

The following Proposed Action Plans are largely based upon the results of VCA and SWOT analysis (Appendix B). In Bangladesh the leather industry ranked four as foreign

exchange earner. In consideration of being a value added sector the Government has declared it as a prior sector. The leather products sector have the huge opportunities in generating employment, entrepreneurship and investment by increasing export of higher value added products rather than finished leather and by utilizing local made raw material (finished leather) for converting into more value added leather products.

4.2 The role(s) of BMOs/BIOs/NGOs in these particular sectors

The trade support infrastructure described in this section spans a technical education institution (Institute of Leather Engineering and Technology – ILET), umbrella organization for business promotion (Leather Sector Business Promotion Council – LSBPC), technical services facility (Center of Excellence for Leather Skills- COEL; Bangladesh Leather Service Centre – BLSC), and three sub-sector BIOs (Bangladesh Tanners Association – BTA; Bangladesh Finished Leather and Leather Goods and Footwear Exporters Association – BFLLEA; and the Leather Goods and Footwear Manufacturers Exporters Association of Bangladesh – LFMEAB).

Institute of Leather Engineering and Technology, Dhaka University

ILET is the only technical education institution in Bangladesh dedicated to leather technology. It delivers undergraduate courses (4-year) in leather technology, footwear technology, and leather goods technology. Located in the tannery centre of Hazaribag, BCLT is a government managed institution for higher learning. It admits 150 students every year, equally divided across the three streams.

Sub-sector BIOs – BTA, BFLLEA, LFMEAB

The three sub-sector BIOs have about 550 members amongst them. Though there seems to be some overlap in membership. The main roles of the BIOs are to maintain memberships, promote export in terms of providing certificate for GSP, Tariff benefits on capital machineries and raw materials, provide common services for their common benefit, advocacy and lobbying for common interests.

SME clusters-Bangladesh

Leather Technologist SME Entrepreneurs (LTSE): Representing the members of Hazaribag tannery area cluster at centre region Dhaka, the most potential cluster formed with young adults and educated entrepreneurs who are graduated from Institute of Leather Engineering and Technology, Dhaka University. These cluster members have bright potential to become exporters and sector leaders in the leather sector in future. The member enterprises, all owned and managed by graduates, male and female, of the ILET, constituted this cluster located in Hazaribag, Dhaka. Most entrepreneurs from this cluster are motivated to set up their businesses on the basis of

their technical education, post-qualification work experience in the leather sector, contacts they developed with other players in the sector, the identification of niche-market opportunities, and the ability to relate technology to developing innovative products.

Bangladesh Paduka Prostutkarak Samity (BPPS): Representing members of the Katwalli police station (old part of Dhaka) cluster at Dhaka. This is the largest and oldest footwear cluster consisting of 350 MSMEs with 5000 employees serving the domestic market and substituting imports through best practice in production of higher value added leather products. Very basic formalities they maintain in terms of memberships

Bhairab Paduka Karkhana Malik Somobay Somity(BPKMSS): Located at Bhairab which is one of the larger clusters consisting of 342 SME members located in the outlying district Kishoregonj who currently producing low end products supplied to local wholesalers and retailers. Very basic formalities they maintain in terms of memberships

Leather Sector Business Promotion Council (LSBPC)

Created as a PPP initiative mandated in the Export Policy 2003-06, the LSBPC is the umbrella organization for the leather sector. Meant to act as the link between industry, institutions and the Government, LSBPC focuses on promoting the local and international market capacity of the leather sector focusing on compliance issues, skills development, and export market diversification. This institution has been in existence since 2004.

Center of Excellence for Leather Skills Bangladesh (COEL)

Centre of Excellence for leather Skill Bangladesh Ltd (COEL) is the nation's first institute of its kind. Objective of COEL is to increase and improve the overall skill level of the workforce of the leather sector. The training centre of COEL is situated at Pallibiddut, Chandra, Gazipur which serves as the hub of COEL's Leather Skill Training Programs. For now, this 12,000 Sqft area has an up to date setup to carry out professional training program for 300 trainees at a time. Other than the main training centre COEL with joint collaboration with the interested factories are in the process of establishing sub centres to increase the productivity of the respective factories. CoEL is registered under section 29 of the companies act, 1994 as a not for profit organization in January 2010, which operates as a one stop solution for the leather industry offering a variety of services with core focus on skills development of the workforce, while building its own capacity through international accreditation and such. This is an industry led public private partnership (PPP) facilitated by EC Funded TVET

Reform Project, USAID-PRICE, SDC and ILO in order to enhance work place learning and productivity through improved skills of the employees.

4.3 The existing state of data and firms on the ground

Tannery sub-sector

Approximately 187 of Bangladesh's 220 tanneries are located in the Hazaribagh area of Dhaka. However, only about 40 tanneries are utilizing a major portion of their installed capacity indicating "sickness" existing in the sub-sector. Tannery sub-sector of Bangladesh requires a great deal of assistance to attain international standards in technical, environmental, safety, and commercial aspects, and to attain the competitiveness. This sub-sector earned revenues in excess of USD 330.16 million during 2011-12.

Footwear sub-sector

The footwear sub-sector of Bangladesh with 90 large enterprise earned revenues in USD 335.51 million in 2011-12. The EU is the biggest destination for footwear exports with a 60% share, following by Japan with 30%, and the rest of the world accounting for 10%. Bangladesh has a >1% share of the world footwear market.

Leather goods sub-sector

The leather goods sub-sector in Bangladesh around 15 enterprises contribute maximum revenue, earned export revenues of USD 99.39 million during 2011-12. This sub-sector displays diversity in enterprise dynamics that is unique, in that it encompasses very few enterprises that are highly sophisticated in product development and manufacturing processes, as well as those that are smaller and still trying to define their competitive competencies.

4.4 Issues relating to EU Guidelines

Issues that are relevant in view of the present state of the sectors are covered by the two proposed action plans. The first vital one to support for the development of the SME clusters and value chain (under lot 1B, intensive growth and consolidation clusters) that will benefit the MSMEs and cluster as a whole as well as that of quality improvement, skill development, financial management improvement, R&D for product and process development, etc. This is covered under lot 1b. has about 700 MSMEs who will be benefitted by this action plan.

Second Action Plan is to strengthening the capacity of leather sector BIOs (under Lot 2, Support to skills development of Business Intermediary Organisations). Mainly three sub-sector BIOs can be benefitted through this action plan. This action will address the skill development on advocacy, lobbying, networking and promoting leather sector. .

4.5 Action Plans from the Technical Study

Proposed Action Plan 1: Support for the development of the SME clusters and value chain (under lot 1B, intensive growth and consolidation clusters)

Action Plan 1.1: *Establishing two Common Facility Centres (CFCs) equipped with training facilities including leather products design & patternmaking and manufacture.*

Background: There are many issues to resolve to give the sector a sound shape and boost, however, weighing the practicality and selecting the priority is important because many issues could subside by the treatment of core issues. CFC is such a core issue to be addressed. Establishing Common Facility Centre (CFCs) equipped with training facilities offering facilities for sharing machining facilities, increasing product quality, skill training, entrepreneurship training, including management and environmental issues, R&D for designing, innovations, process and product technology development, prototype developments.

Objectives: It is critically important to develop an overall Common Facility Centre (CFC) for the sector MSMEs, the objectives of the establishing CFC are :

- All kinds of modern machineries will be available
- Scope of use modern machines to do job work
- Provision of skill develop training
- Archive/Information centre/library/Latest news update centre with latest journal, magazines and news letter.
- Leather Testing unit
- R&D unit

Key stakeholders group: BFLLEA, LFMEAB, LTSE, BPPS, BPKMSS.

Type of activities: The proposed action plan relying on different types of activities:

- Strategic plan for two CFCs
- Implement the plan including machine and equipments purchasing.
- Organize TOT for centre managers and trainers.
- Developing skills for 3000 workers who will work on machines after having demonstration at CFCs.
- Develop operating procedure for operation including waste management policy and utilization of CFCs at clusters for the sustainability of the centres, for example; fees/charge for using machineries, subsidies price for trainings.
- Facilitate CFC as incubators for the new entrepreneurs.
- Develop manual on Occupational health and safety to ensure better and safer working environment.

Specification of related outputs and results The **overall result** will be 1000 MSMEs will have the access to modern machining facility, 2500 new trained machine operators, new job opportunity will be created, MSMEs will boost their business both in domestic and international market by upgrading their design, prototype, process and quality.

Description of linkages/relationships between activity clusters: BIOs with its partner SME cluster's association.

Timeframe: 30 months

Estimated cost: € 450,000

Action Plan 1.2: Market linkages for the MSMEs

Background: MSMEs clusters of businesses must continually be seeking expanded and diverse marketing opportunities as most of them do not have easy access to domestic large buyers and many of them also do not have the capability to participate in the international fairs to explore possibilities of exporting leather products. So various local and international buyer seller meeting, fairs needed to be arranged to boost up SMEs business. So market linkage action is a must as an interconnected plan of proposed action plan 1.

Objectives: To improve the productivity of MSMEs by exploring possibilities to get access to new markets.

Key stakeholders group: BFLLFEA, LFMEAB, LTSE, BPPS, BPKMSS.

Type of activities: The proposed action plan relying on different types of activities:

- Arrange 10 Buyer–Seller meeting for MSMEs with the lead retailers and wholesalers.
- Organize to take part in four local trade fairs (Dhaka International Trade fair, National SME fair).
- Facilitate potential exporter SMEs to take part at 2 different international fairs annually for 3 consecutive years.
- Organize and deliver training on marketing and promotion.
- Delivering technical training on design & development, fashion, trends, pattern & prototype making.
- Arrange custom-made training on quality management system
- Facilitate training on better management practices (commercial documentation, accounting, VAT&TAX).

Specification of related outputs and results The **overall result** will be around 350 MSMEs will have the opportunity to take part in the local and international trade fairs and buyer-seller events and at least 20% of them will get direct access to local lead retailers and international market.

Description of linkages/relationships between activity clusters: BIOs with its partner SME cluster's association.

Timeframe: 30 months

Estimated cost: € 350,000

Action Plan 1.3: Management and Improved technology training:

Background: Members of MSMEs clusters are lacking entrepreneurship skills due to the absence of managerial knowledge, lack of information regarding latest technology and skill on simplifying the production process. That is why they are lagging behind the value chain. Initiative should take into consideration to overcome these shortcoming skills of businesses development.

Objectives: To improve managerial skills and introduce with modern technology for better business development.

Key stakeholders group: BFLLFEA, LFMEAB, LTSE, BPPS, BPKMSS.

Type of activities: The proposed action plan relying on different types of activities:

- Deliver hands-on training on waste management which will also improve efficiency.
- Launched a pilot program to demonstrate best practices, disseminate information and share experience among 500 MSMEs.
- Organize training on Occupational Health & Safety and Environmental Management System.
- A technical study to identify suitable match-makers in-country and international.
- Organize study tour for 300 MSMEs in country and outside of the country to see the better practices, exchange experiences and problems.
- Arrange dialogue between MSMEs & lead firms to bridge the gap among the sector players by organizing seminars, workshop and round table discussion.
- Organize product specific entrepreneurship development programme in the field of leather product sector at the various clusters of the country.
- Develop and deliver tailor-made training program to develop specialized value added products like; close shoes, moccasins and waist belt.

Specification of related outputs and results The **overall result** will be around 500 MSMEs will be trained on management and improved technology and will be able to produce higher value added leather products.

Description of linkages/relationships between activity clusters: BIOs with its partner SME cluster's association.

Timeframe: 30 months

Estimated cost: € 250,000

Proposed Action Plan 2: Skill development and strengthening the capacity of leather sector BIOs (under Lot 2, Support to skills development of Business Intermediary Organisations).

Background: BIOs of the leather sector are limited with its existing activities rather than diversified their services. The leather sector of Bangladesh presently has arrived at a cross road. The industry has immense growth possibilities as the installed capacity of the industry uses only less than 50% of 220 million sq. ft. of finished leather produced in the country. The price structure of leather products is quite competitive in international market because of locally available leather and lower level of labour cost. Another plus point is that international big players like China and Vietnam have become uncompetitive because of higher labour cost and are considering either to relocate factories or to shut down business. Bangladesh may become a favourite site for relocation from these countries. These two factors combined together may contribute to a very large scale expansion of the industry. As for example Vietnam produces almost same amount of finished leather produced in Bangladesh but its export of leather goods and footwear has reached 17 billion US dollar as against Bangladesh 1 billion US dollar only. To grab all these opportunities action must be taken to develop skills of the BIOs and institutional capacity of BIOs is a must.

Objectives: Overall objective is to lead and guide the industry increase the share of leather product export earning.

Specific objectives are:

- To help members attain competitiveness for easy access to export market and partnering with foreign investors.
- Ensure involvement of the association in environment audit
- Lobbying for a business friendly environment and a virtual leather policy
- To expand the membership of the association.

Key stakeholders group: BFLLFEA, BTA, LFMEAB

Type of activities: The proposed action plan relying on different types of activities:

- A strategic plan for establishing in-house knowledge & research centre and implementing the plan.
- Skill development of board members of BIOs on advocacy and lobbying to for maximum facilities accorded to this priority sector & advocacy for TAX policies going against the interest of this sector to reform export friendly regulation and policy.
- Training on environmental and waste management issues for the members of BIOs and develop an effective manual targeting gender equality and safety working environment.
- Network linkages building events with EU based associations, institutes.

Specification of related outputs and results The overall result will be board members of BIOs will have the knowledge to do advocacy and lobbying for their common interest and members will be benefited through knowledge centre.

Description of linkages/relationships between activity clusters: Leather sector BIOs.

Timeframe: 30 months

Estimated cost: € 250,000

Total estimated cost for Action Plan 1: € 250.000 (to apply for a grant € 200.000)

5.0 Key Recommendation

As a sector of an emerging economy the promising leather sector has many issues to resolve, and deserve big supports from all the possible perspective to make the sector very successful like that of RMG. There are many issues that will hopefully subside as the sector make progress, and as the core issues are thoughtfully addressed.

In terms of priority, sustainability, due diligence, EU guidelines for the grant, and moving towards core objectives, the consultant recommended the aforementioned two action plans of Common Facility Center, and strengthening the related BIOs that will address many core issues and help augment the sector towards the ultimate goal.

Besides there are a few recommendations listed below that consultant gathered after interviewing various stakeholders in the sector:

- **Leather Processing:** Improper slaughtering and flaying of hides and skins cause a big loss, and can be reduced by establishing a modern slaughtering house / abattoir, Standard Operating Procedures (SOPs) and Quality Control (QC), creating awareness (through extension training & media) on slaughtering & flaying process, with special focus during the Qurbani festival period.
- **Market development support:** Promote product image through quality-design-services, establishing market trend intelligence, facilitating participation in international trade fairs, Organize local fair, Develop website and catalogue.
- **Access to Finance:** Enable Micro, Small and Medium Enterprises (MSMEs) to qualify for finance through developing innovative financial products.

Having the basic raw materials for leather goods as well as for the production of leather footwear, a large pool of cheap but trainable labor force together with tariff concession facility to major importing countries under GSP coverage, Bangladesh is set to emerge as the next potential offshore location for leather, leather footwear and allied products manufacturing with competitive cost but high quality, a manufacturing hub for the global leather goods industry.

Appendix A

TOR's for Assignment

Local Expert for Leather Products, Value Chains and Grant Scheme

1. Background

PKF (UK) LLP is leading an international consortium comprised of WYG (UK), Harewelle (UK) and SEBA Limited (Bangladesh) and is responsible for technical assistance to the Ministry of Industries of the Government of Bangladesh and the SME Foundation. The project will assist clusters, sector business associations and other business organisations in order to submit high quality applications under the SME competitiveness grant scheme. The overall objective of the project is reduced poverty in Bangladesh by supporting the development of SMEs, and the purpose is to enhance competitiveness and sustainable pro-poor growth of SMEs in Bangladesh.

Support will be provided to clusters using value chain initiatives that seek to increase firm level competitiveness in the following sectors: agro-processing, natural fibres, leather products, plastics, light engineering, electronics, furniture and home textiles/crafts.

The project also provides capacity building to business intermediary organisations (BIOs) in lobbying, advocacy, networking, public-private sector dialogue and the provision of business development services to members. The project commenced in February 2012 and will be completed in January 2014.

2. Scope of Work and Activities

The Government of Bangladesh and specifically the Ministry of Industries has identified a number of “booster” sectors representing higher growth rates and which can, therefore make a significant contribution to the economy in terms of value added, employment, technology, innovation, exports and import substitution.

This consultancy builds on this by working with the BIOS and BMOs representing the leather sector, carrying out value chain work and relating these results directly to a formal Action Plan for the Grant Scheme.

Specifically, the consultant will be required to under the following:

1. Meet with INSPIRED program staff including the Team Leader, Chief Technical Adviser, Senior VCA Expert and BIO Expert for a briefing on the program.
2. Meet with all of the major BIOS/BMOs representing this sector to:

- a. Review the Grant Scheme, Concept Notes and Full Applications to determine which project ideas might be a priority?
- b. Meet with other key stakeholders to review these issues.
- c. Determine if there are high growth sub-sectors or products which should be focused on in value chain analysis?
- d. Based on this information, if value chain analysis has already been done, update findings.
- e. If value chain analysis has not been done, undertake a rapid assessment of a few sub-sectors of high growth.
- f. Complete the value chain analysis by evaluating the main gaps and opportunities with concrete recommendations on how these can be addressed. Recommendations must be precise. (The initial briefing will discuss the use of SMART or SWAT analysis.)
- g. It is essential that the value chain analysis be of relevance to project ideas put forward by the BIOs and stakeholders for the Grant Scheme so findings can be used to prepare a formal Action Plan.
- h. Prepare an Action Plan(s) for the key project ideas put forward by the BIOs with the assistance of INSPIRED program staff, Senior VCA Expert and Grant Scheme Guidelines Experts.
- i. This Action Plan should accurately reflect the needs and concerns of the BIOs and take fully into account Grant Scheme Guidelines, in particular the Table of Contents for preparing Concept Notes.
- j. Prepare a draft technical report which provides the following:
 - a. Main findings from discussions with BIOs and stakeholders.
 - b. Details on the key project ideas from BIOs and stakeholders for Concept Notes
 - c. Value chain analysis or an update.
 - d. An Action Plan(s) for Concept Notes
 - e. Submit the draft report and revise according to comments from program staff.
 - f. Submit a final technical report by the contract deadline.

SI.	Activities/Deliverables	Days allocated
01	Meet with project staff including the Team Leader, Chief Technical Advisor, Senior Value Chain Expert for a briefing on this assignment.	1 days
02	Meet with relevant BIOs/BMOs to explain the Grant Scheme and solicit their opinions on the feasibility of developing new project activities for this Scheme. Come away with concrete project	1 days

	development ideas which can be turned into Action Plans	
03	Undertake value chain analysis on 2-3 products/sub-sectors or update the data base if VCA has already been undertaken. Identify constraints and opportunities and provide a concrete list of specific recommendations which can be tied to Action Plans.	4 days
04	Undertake SMART Analysis on these constraints and opportunities. To be discussed at the briefing session.	2 days
05	Based on feedback from BIOs/stakeholders and data from VCA analysis prepare specific Action Plans which can be incorporated into Concept Notes and which follow Guidelines.	2 days
06	Submit the first draft of a technical report.	2 days
07	Incorporate revisions and submit a final technical report.	1 days

3. Qualifications of the consultant:

The local consultant should have the following experience and qualifications:

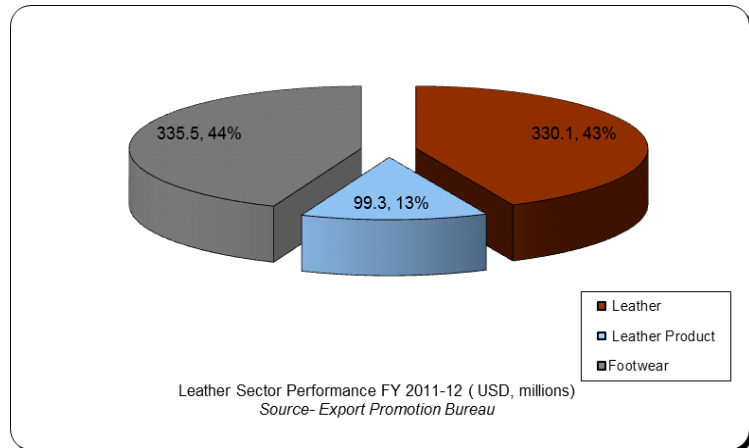
1. A Bachelor Degree in Leather Engineering, business or a similar relevant discipline.
2. At least five years working in the leather industry/value chains/sector assessment/feasibility studies in Bangladesh.

Appendix B

A Value Chain Analysis for the Leather Sector

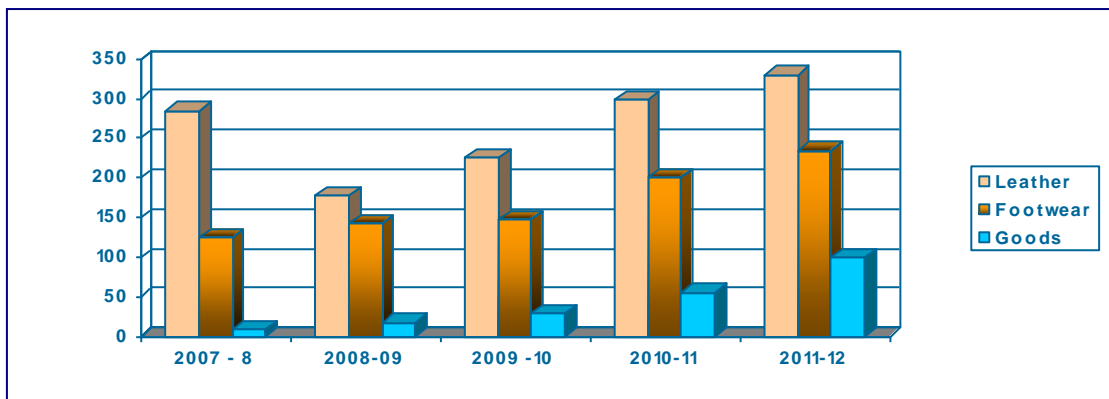
This is a 4th largest export earning and highly potential sector in Bangladesh as the 90% of the basic raw materials - high quality grain leathers are locally available that can certainly find a strong niche in the world market. This sector is very much akin to RMG sector, the number one export earning sector in Bangladesh that earned over USD 20b with imported basic raw materials

in 2011-12, and where value addition scope is ~40%. As oppose Leather sector (where value addition scope is ~90%) in FY 2011-12, grew by 17.5 percent and earned \$765 million in revenue, of which \$434.8 million was derived from footwear and leather products, accounting for approximately 57 percent of the total revenue of the sector.



export earnings in 2011-12 stood at USD 330.6m, 10.86% higher than that of previous year. The sector evolved at this stage of its own without much care, due nurture and patronization.

In the last ten years (2002-2012) among the major exporting sectors **leather and leather products** account for a significant growth (300%) particularly the leather products sub-sector (900%) Export of leather products jumped from \$ 50 million to \$ 435 million which is only 0.5% of the global market share so there is a huge room to explore the opportunity for the leather products sector of Bangladesh to increase the world market share.¹



Export Performances of leather and leather Products (leather footwear and leather goods) last 5 yrs in USD Millions. Source EPB statistics, 2013.

The leather products industry includes 3,500 SMEs and 100 lead firms controlling more than 90% of the export market. Most of the enterprises are located in Dhaka, followed by two big clusters at Bhairab & Chittagong. The sector generates direct and indirect employment for about 850,000 people, including a significant number of women, particularly in the footwear and leather goods industries.²

MSMEs are the heart of this sector; the large/organized enterprises are increasingly depending on SMEs as outsourcing business is on a rise. Apart from that, MSMEs themselves are exposing as important market players. Despite this fact there is room for the development of MSMEs in this sector.

With the expansion of export market and increase of per capita income with consequent higher living standard the demand for local market is also increasing particularly for the footwear and leather goods which are mostly dominated by MSMEs (70%)⁴. Organized factories like Bata, Apex, Jennys, etc are controlling the rest 30% market⁵. Domestic market of footwear and goods in Bangladesh is ~146 millions of pairs worth ~ USD 350 million⁶. The ratio of sourcing from local enterprises and import is 80:20 in terms of products quantity. Out of this USD 350 million the imported leather products comprise 40%⁷ meaning that high ended products are imported. Unfortunately most of these imported products are smuggled (80%)⁸ in. The country is loosing value to the tune of USD 140 million due to the following reasons -

- Absence of clustering strategy for joint production and retailing by MSMEs
- Inefficiency in production & lack of skill in quality
- Limited access to modern machineries,
- Competition from cheap/illegal imports,
- Limited access to market information and market linkages
- Confidence gap in the consumers about the local products
- Lack of access to formal finance.

Most SMEs failed to graduate to the value chain since its inception due to above mentioned reasons as well so that efforts from all corners is required to make them commendable stakeholders.

The value chain of manufacturing part consists of 1) Tannery, 2) Leather Footwear and 3) Leather Goods. Other than these 3 sub-sectors in leather sector no new sub-sector is found emerging very soon, although a few big companies from Taiwan and China already invested in this sector, and a few factories started producing outsoles which is a very important and welcoming start of new integration in the footwear sub-sector. The backward linkage industries are almost empty, and open for investment.



1) Tannery subsector:

Out of total 220 tanneries in Bangladesh, 187 tanneries are located in Hazaribagh, Dhaka. The principal raw materials for this sector are cowhides and goatskins. 112-115 big units have facilities for processing wet blue leather only. The remaining 91-95 small, medium and large units having reasonable facilities produce crust and finished leather.

The annual domestic supply of hides and skins is around 220 million square feet, consisting of 63.98% cowhides, 32.74% goat skins, 1.09% sheep skin and 2.219% buffalo hides. While 50% of this is consumed locally and rest 50% is exported to 53 countries in the form of semi-finished leather (75%), finished leather (20%), and footwear, handbags, accessories, and other leather goods (5%)¹.

The tanneries located in Hazaribag can reportedly process 94% of the hides and skins available in Bangladesh. However, independent of this capacity, there are issues affecting the collection of hides and skins even before they reach the tanneries.

¹ Draft Leather Policy 2006-2010 by LSBPC, MoC & GoB

Bangladesh lacks fully mechanized slaughter-houses. Approximately 85% of the animals are slaughtered by unskilled operatives, with the rest of the animals being slaughtered in semi-mechanized abattoirs. This results in the reduction of value of the leather owing to loss of shape and incisions in the hides and skins. Furthermore, there is no scientific preservation and processing system in the country. Improper flaying of hides and skins is reported to cause about USD 150 million in losses per year. The supply-cycle of skins and hides 45% of the annual supply becomes available during the festival of Eid-ul-Azha – is compounded by the lack of storage systems and also working capital.

The global leather and its product market size is measured to be as ~US\$ 100 billion, where the share of Bangladesh business is 0.56%². The national objective of increasing that market share to 2% by 2013 represents an ambitious increase in export value.

This subsector generated direct employment of about 50,000

One of the major concerns of this sector is its environmental pollution, according to DOE, the tanneries discharge nearly 22,000 cumec of untreated and highly toxic (contains chromium) into the water body everyday. On the other hand, it produces 100 tons³ of solid waste everyday in the form of trimmings of finished leathers, shaving dust, hairs, trimmed animal flesh skins/hides to contaminate the soil and the water.

Modern Leather Industrial City - Savar

In 2003, the Government of Bangladesh announced that the tanneries located in Hazaribag will be shifted to a purpose-built and modern cluster in Savar, on the banks of the river Dhaleswari, 10 kilometres from Hazaribag. The key highlight of the Savar cluster was to be the Common Effluent Treatment Plant (CETP), conforming to international environmental standards. The Bangladesh Small and Cottage Industries Corporation (BSCIC) is the implementing agency for the project.

It will support 195 tanneries with an employment potential of 100,000 people. However, relocation and moving to designated modern tannery cite with existing outdated old machineries from the existing Hazaribagh cite is a big challenge, and a matter of big investments for the tannery owners. The sooner it takes place the better.

2) Leather Footwear subsector

The footwear sub-sector of Bangladesh earned revenues in excess of USD 335.51 million in 2012-13. The EU is the biggest destination for footwear exports with a 60%

² UN Comtrade

³ The Daily Star, June 24, 2009

share, followed by Japan with 30%, and the rest of the world accounting for 10%. Bangladesh has a >1% share of the world footwear market.

Meeting with representatives of the footwear sub-sector highlighted an optimistic sentiment about business. The businesses view their products as price and quality competitive. Footwear manufacturers in the country rate themselves as being able to respond quickly to buyer inquiries, possessing the ability to offer competitive prices, quality products, and prompt fulfillment of orders. The growth of this sector is very encouraging and shows off the underlying potentiality of the sector.

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Footwear (all)	68.3	87.78	95.45	123.03	159.16	182.92	204.09	297.8	335.51
Growth in %	46.56	28.52	8.73	28.89	29.37	14.93	11.57	45.92	12.66

However quite a few supply side weaknesses were also highlighted. Among the most important are the inability of the tanneries to supply required quantities and quality of leather and the weak track record of environmental standards, the lack of availability of high quality components and accessories, the shortage of lasting capacities, the lack of footwear design and development capacities, the nascent testing and analyses infrastructure, insufficient numbers of enterprises in the sub-sector, shortage of craftsmen and supervisory-level personnel, and last but not least, negative buyer perception on enterprise capabilities.

The footwear sub-sector has also been able to attract FDI from East Asian manufacturers (Taiwanese and Korean). One manufacturer is even planning to establish the world's largest footwear factory with a capacity of 30 million pairs per year in Chittagong. This kind of investment, when realized, can provide impetus to the development of footwear-oriented support services such as design and development, component and chemical manufacturing, as well as testing and analyses capacities. However, there will be an urgent need to augment human resource capacities and physical infrastructure issues.

Another positive feature emerging in the footwear sub-sector is the development of possible backward linkages.

3) Leather goods sub-sector

The leather goods sub-sector in Bangladesh earned export revenues of USD 99.39 million during 2011-12. This sub-sector displays diversity in enterprise dynamics that is

unique, in that it encompasses very few enterprises that are highly sophisticated in product development and manufacturing processes, as well as those that are smaller and still trying to define their competitive competencies.

The sector is very promising, and the growth of this sector is very encouraging:

	2008-09	2009-10	2010-11	2011-12
Growth in %	111.72	54.2	91.29	79.4

The future is perceived very positive, with potential for more than 100% increase expected in 2012-13. Almost all manufacturers are EU-focused in their exports, and have been to fairs to show-case their products. They are offered preparatory design and technical assistances following their participation. This experience was seen as valuable in light of the fact that they need to develop core competencies at the enterprise-level was a lesson learnt. Another lesson that came through to the participants was the need for product differentiation at the enterprise-level.

This sub-sector is keen on developing engagement with its peers in Asia (India, China, and Vietnam), and believes that technical assistance in craftsmanship may be more suitable if sourced from the region. The representatives of leather goods firms also expressed the need to organize fair(s) in Bangladesh regularly, and attracting buyers to visit in conjunction with the Chennai leather fair, in India. Japan.

One of the major constraints raised by this sub-sector was the lack of finished leather variations to match emerging trends in the EU market, due to the lack of innovation and upgradation by tanners in Bangladesh. Anecdotal evidence gathered in meetings with enterprises highlighted that some of the highest quality manufacturers are sourcing upwards of 40% of their leather requirements from overseas and this impacts competitiveness. Another constraint seen was the lack of new entrepreneurs entering the business, to augment capacity and provide a critical mass that can attract more buyers to Bangladesh. The shortage of craftsmen and supervisory personnel is also another constraint to the development of this sub-sector.

The leather goods sub-sector is ideal for youth, women and micro entrepreneurs to start off in, based on the quantum of start-up costs and capital investments. It (the sub-sector) can also provide the opportunity to gain experience and transform to footwear or other artisanal sub-sectors. The corporate-gifts are seen as promising markets.

SWOT Analysis of the Bangladeshi Leather Sector based on face to face interview and secondary data:

Strengths

- Governments declared “Thrust sector”; highest priority is Footwear & Leather Goods
- Renewable natural resources
- The growth rate of Bangladesh’s livestock population have been steadily increasing
- ~90% materials locally available
- Unique grain pattern and fiber structure of cattle, high quality and reputation of natural leather
- Adequate competitive workforces, availability of labor and low labor cost
- Comparative price advantage in international market
- The sector has favorable conditions for high value addition ~90% when the largest RMG sector has value addition scope ~40%
- Unbeatable price offer as basic raw materials are locally available and low overhead costs.
- Favorable geographical location

Weakness

- Selective and limited Access to Finance
- Lack of Skilled Workforces
- Lack of access to latest technology and machinery facilities
- Insufficient services and supports from BIOs.
- Lack of education, training
- Absence of entrepreneurial skill, rent seeking mentality.
- Poor linkage and coordination between/among SMEs and lead firms
- Absence of market information and promotion, inadequate marketing knowledge of local leather entrepreneurs
- Inefficient/unskilled hide collection systems
- Poor/or no R&D, laboratory facilities
- Inadequate training facilities and centers
- Vulnerable SMEs; poor enterprise level cooperation
- No international brand image
- Poor compliance practice
- Poor infrastructure, power
- Weak accessories/chemical industry
- Dependence on chemical/accessories import
- Skilled designers and facilities for product design and development are unavailable
- High rate of interest on term loan and working capital, and many limiting factors to have access to finance
- Footwear accessories (such as tapes, trims, buckles, linings, shoe-last, etc.) are not locally available
- Limited product development and market orientation
- Complicated rules and regulations which affect lead-time and acquisition of inputs

Opportunities

- Huge untapped international market, <1% as well as domestic market
- Increasing global demand for value added, diversified products
- Scope of developing backward linkage business
- High value addition potential
- High tax on competitors by major leather products importers
- Labor intensive; employment opportunities
- Low wage workers convertible to skilled ones
- No duty on shoes, leather products made and exported from Bangladesh.
- Establishing by-product industry with solid and liquid waste through proper R & D
- Local and Foreign Direct Investment opportunity in value added leather products sector
- China is losing competitiveness
- Future Leather estate to raise brand image
- Backward linkage development
- Investment in the value added leather goods and footwear sector
- Government policies toward leather exporters; GSP, Cash Incentive; etc.
- Already big players like Young-one, Blue Ocean, Venturini, Tata invested in BD signaling many more to follow.
- Increasing International and Local demands for value added leather products.
- International Fashion and sourcing houses in BD for RMGs showing interest in leather products

Threats

- Absence of integrated policy; no long term policy regarding Common Facility Center (CFC), SME cluster development, Branding/promoting Bangladeshi leather products
- No dedicated skill development institute/ vocational training center for workers and supervisors
- Political instability, corruption
- Lack of backward linkage industry for chemicals/accessories and substandard quality of the products.
- Increasing import of low priced synthetic products
- Illegal export of raw hides/skins
- Smuggling and under invoicing of products
- Potential buyers stringent stands for compliances, and delay in building Common Effluent Treatment Plant (CETP) at leather village, Savar, Dhaka
- Emergence of alternative sources like Myanmar.

SOME QUANTITATIVE INFORMATION

Leather Sector

- Number of Tanneries : 220
- Number of leather products large firms : 110
- Number of leather products MSMEs : 3500
- Employment (direct & indirect) : 0.8 m
- Major Clusters : Dhaka, Bhairab, Chittagong
- Export revenue FY2011-12 : USD 765 million
- Domestic Market : USD 350 million
- Types of Products : Finished leather & leather products
- Level of Technology : Low to Intermediate

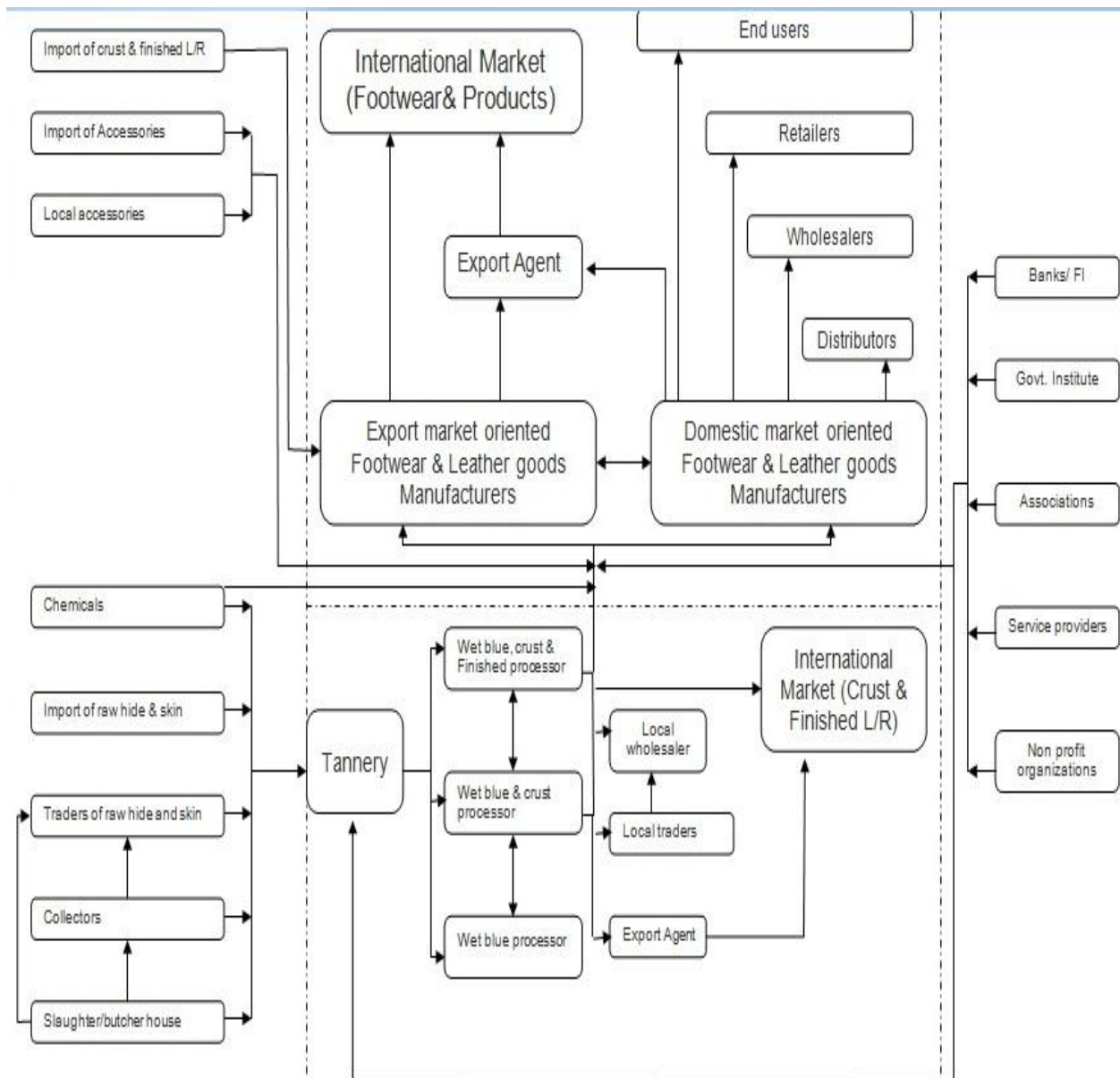
Analysis of value addition by different value chain

Value addition at different stages of value chain:

SI	Stages	Avg. value addition		Updated VA	Remarks
01	Raw hide supply	3%		6.66%	
02	Raw hide to It blue	7%		8%	
03	It blue to crust	8%		21%	7th
04	Crust to finished	9%		13%	
05	Wholesale of leather (input supplier for footwear)	29%	5th	23%	6th
06	Handmade Footwear producer	35%	4th	19.7%	8th
07	Wholesale of Handmade Footwear	6%		9.33%	
08	Retailer of Handmade Footwear	15%	7th	23%	6th
09	Industrial footwear production for local market	36%	3rd	33%	4th
10	Wholesale of industrial footwear	5%		8.6%	
11	Formal retailer of industrial footwear	12%	8th	11.25%	
12	Industrial footwear for export market	35%	4th	40%	1st
13	Handmade leather goods producer	48%	1st	37.6%	2nd
14	Retailer of handmade leather goods	22%	6th	27.5%	5th
15	Leather goods producer semi-industrial approach	37%	2nd	33.5%	3rd

Source: GTZ Progress report on Value Chain Assessment of the Leather Sector in Bangladesh

Leather Sector Value Chain Map



Financial Analysis of Value Addition

Value Addition by Raw Hide (Cow) Suppliers

Assumption:

- Raw hide : 7 bundles 140 pcs (Each bundle contains 20 pieces))
- Purchase Price : Tk. 1,400.00/ Each raw hide
- Selling Price : Tk. 1,500.00/Each raw hide

Calculation:

Rawhide Sales: 7 Bundles/140 pcs @ tk. 1,500 Tk. 210,000.00

Less: Cost and Expenses:

- Purchase of Raw hides (140 pcs @ Tk. 1,450) : Tk. 1,96,000.00
- Transportation (7 bundles @ Tk. 150) : Tk. 2,380.00
- Labour, hat and Izara charge : Tk. 3,500.00
- Travelling, Conveyance Foods and Hotel rent : Tk. 2,000.00

.....
Tk. 2,03,880.00

.....
Profit calculation for value addition : Tk. 6,120.00

Value Addition : (210,000-196,000)
= Tk. 14,000

Value Addition Percentage : $\left(\frac{14,000}{210,000} \times 100 \right)$

= 6.66%

Value Addition by Wet Blue Producer

Assumption:

- Raw hide purchase : 140 pcs
- Purchase price of raw hide : Tk. 1,500/pcs.
- Wet Blue Production : 25 sft from 1pc. of raw hide
- Selling Price of Wet Blue : Tk. 100/sft.

Calculation:

Sales: 2800 sft @ Tk.100 : Tk. 280,000.00

Less: Cost and Expenses:

- Raw hide purchase (140 pcs @ Tk. 1500) : Tk. 210,000.00
- Chemical (2800 sft @ Tk.17) : Tk. 4,7600.00 (17)
- Overhead (All) : Tk. 16,800.00 (6)

.....
 Tk. 274,400.00

Profit Calculation for Value addition : Tk. 5,600.00

Value Addition : (280,000-2,57,600)
 = Tk. 22,400.00

Value Addition Percentage : $\left(\frac{22,400}{280,000} \times 100 \right)$
 = 8%

Value Addition by Crust Leather Producer

Assumption:

- Purchase of Wet Blue : Tk. 2,800/sft
- Purchase Price Wet Blue : Tk. 100/sft
- Selling Price of Crust Leather : Tk. 175/sft.

Calculation:

Sales: 2800 sft @ Tk.175 : Tk. 490,000.00

Less: Cost and Expenses:

- Purchase of Wet Blue (2800sft @ Tk.100) : Tk. 2,80,000.00
- Chemical (2800 sft @ Tk.38) : Tk. 1,06,400.00
- Overhead (All) : Tk. 70,000.00

.....
Tk. 456,400.00
.....

Profit calculation for value addition : Tk. 33,600

Value Addition : (490,000-386,400)
= Tk. 103,600

Value Addition Percentage

$$: \left(\frac{103,600}{490,000} \times 100 \right)$$

= 21%

Value Addition by Finished Leather Producer (Export Quality)

Assumption:

- Purchase of Crust Leather : Tk. 2,800/sft
- Purchase Price Crust Leather : Tk. 175/sft
- Selling Price of Finished Leather : Tk. 230/sft

Calculation:

Sales: 2,800 sft @ Tk. 230 : Tk.644,000.00

Less: Cost and Expenses:

- Purchase of Crust Leather (2,800 sft @ Tk.175) : Tk. 4,90,000.00
- Chemical (2,800 sft @ Tk.25) : Tk. 70,000.00 (25)
- Overhead including export cost : Tk. 28,000.00 (10)

.....
Tk. 588,000.00
.....

Profit Calculation for value addition : Tk. 154,000.00

Value Addition : (644,000-5,60,000)
=Tk. 84,000.00

Value Addition Percentage : $\left(\frac{84,000}{6,44,000} \times 100 \right)$

= 13%

Value Addition by Wholesaler of Leather (Input Supplier for Footwear Industry)

Assumption:

- Purchase Leather : 2.5 sft
- Purchase Price : Tk.230/sft
- Selling Price : Tk. 300/sft

Calculation:

Sales: 2.5 sft @ Tk.300 : Tk. 750.00

Less: Cost and Expenses:

- Purchase of Leather(2.5 sft @ Tk.230 : Tk. 575.00
- Transportation Cost : Tk. 2
- Shop Rent and Electricity : Tk. 15.00
- Salesman Salary : Tk. 12
- Entertainment : Tk. 2

.....

Tk. 606

Profit Calculation for value Addition :

.....
Tk. 144

Value Addition : (750-575)
= Tk.175.00

Value Addition Percentage : $\left(\frac{175.00}{750.00} \times 100 \right)$

= 23%

Value Addition by Handmade Footwear Producer

Assumption:

- Production : One pair Shoe
- Style : Derby Monk
- Size : 7
- Upper Leather required : 2.5 sft
- Purchase price of upper Leather : Tk. 160/sft
- Lining Leather required : 2.0 sft
- Purchase price of Lining Leather : Tk. 30 sft
- Selling price of Shoe : Tk.1,360/shoe

Calculation:

Sales: 1pair shoe : Tk. 1,360.00

Less: Cost and Expenses:

- Upper Leather(2.5 sft @ Tk.160) : Tk. 320.00
- Lining Leather 2 .5sft@Tk.100) : Tk. 250.00
- Insole : Tk. 75.00
- Sole : Tk. 275.00
- Heel : Tk. 30.00
- Welt : Tk. 25.00
- Chemical Sheet : Tk. 20.00
- Thinner : Tk. 8.00
- Adhesive : Tk. 40.00
- Thread : Tk. 15.00
- Sticker(Metal) : Tk. 10.00
- Velcro : Tk. 4.00

- Shank(Bamboo) : Tk. 4.00
- Tag : Tk. 2.00
- Filler(Bond) : Tk. 2.00
- Polishing Finishing Materials : Tk. 12.00
- Making Charge : Tk. 100.00
- Rent : Tk. 15.00
- Electricity : Tk. 5.00
- Others : Tk. 5.00

.....

Tk. 1217.00

Profit calculation for value addition :

.....

Tk. 143.00

Value Addition :

(1360-1092)

= Tk. 268

Value Addition Percentage :

$$\left(\frac{268}{1360} \times 100 \right)$$

= 19.7%

Value Addition by Wholesaler of Handmade Footwear

Assumption:

- Purchase Price : Tk. 1360.00
- Selling price of shoe : Tk. 1500(Retailers)

Calculation:

Sales : Tk. 1500.00

Less: Cost and Expenses :

- Leather shoe purchase : Tk. 1360
- Salesman Salary : Tk. 4
- Warehouse rent : Tk. 3.12
- Shop rent : Tk. 3.12
- Electricity : Tk. 1
- Telephone bill : Tk. 0.25
- Entertainment : Tk. 1.50

.....
 Tk. 1373.00

Profit calculation for value addition :Tk. 127.00

Value Addition :(1500-1360)

= Tk. 140

Value Addition Percentage : $\left(\frac{140}{1500} \times 100 \right)$

= 9.33%

Value Addition by Handmade Footwear Retailer

Assumption:

- Purchase Price : Tk.1500.00(Medium Standard)
- Selling price of shoe : Tk. 1950(Retailers

Calculation:

Sales : Tk. 1950.00

Less: Cost and Expenses:

- Leather shoe purchase : Tk. 1500.00
- Salesman salary : Tk. 10
- Warehouse rent : Tk. 4
- Shop rent : Tk. 16
- Electricity : Tk. 4
- Telephone bill : Tk. 1.50
- Entertainment and miscellaneous : Tk. 5.50

.....
Tk. 1541.00

Profit calculation for value addition :
Tk. 409.00

Value Addition : (1950-1500)
=Tk. 450

Value Addition Percentage : $\left(\frac{450}{1950} \times 100 \right)$

= 23%

Value Addition by Industrial Footwear Producer for Local Market

Assumption:

- Production : One pair shoe
- Style : Derby
- Size : 7
- Upper Leather required : 2.5 sft
- Purchase price of Upper Leather: Tk. 170/sft
- Lining Leather Required : 2.5 sft
- Purchase Price of Lining Leather : Tk. 100/sft
- Selling price of shoe : Tk. 900/shoe

Calculation:

Sales: 1 pair shoe : Tk. 1800.00

Less: Cost and Expenses:

- Upper Leather(2.5 sft@Tk. 110/) : Tk. 425.00
- Lining Leather 2.0 sft @ Tk. 40) : Tk. 250.00
- Insole : Tk. 70.00
- Sole : Tk. 280.00
- Heel : Tk. 30.00
- Welt : Tk. 25.00
- Chemical Sheet : Tk. 20.00
- Thinner : Tk. 8.00
- Adhesive : Tk. 40.00
- Thread : Tk. 20.00
- Sticker(Metal) : Tk. 10.00
- Velcro : Tk. 5.00
- Shank(Bamboo) : Tk. 4.00
- Tag : Tk. 2.00
- Filler(Bond) : Tk. 2.00
- Polishing Finishing Materials : Tk. 12.00
- Overheads(office, selling and interest on loan) : Tk. 400.00

.....
Tk. 1603.00

Profit Calculation for value addition : Tk. 197.00

Value Addition : (1800-1203)
= Tk. 597

Value Addition Percentage : $\left(\frac{597}{1800} \times 100 \right)$
= 33%

Value Addition by Wholesaler of Industrial Footwear

Assumption:

- Purchase Price : Tk. 1800(Standard)
- Selling Price of shoe : Tk. 1970(Retailers)

Calculation:

Sales : Tk. 1970.00

Less: Cost and Expenses:

- Leather shoe purchase : Tk. 1800.00
- Salesmen salary : Tk. 6
- Warehouse rent : Tk. 4
- Shop rent : Tk. 4
- Electricity : Tk. 1
- Telephone bill : Tk. 0.25
- Entertainment and Miscellaneous : Tk. 1.75

.....
Tk. 1817
.....

Profit calculation for value addition : Tk. 153

Value Addition : (1970-1800)
= Tk. 170

Value Addition Percentage :
$$\left(\frac{170}{1970} \times 100 \right)$$

= 8.6%

Value Addition by Formal Retailer of Industrial Footwear

Assumption:

- Purchase Price : Tk. 1970 (Standard)
- Selling Price of shoe : Tk. 2220 (Retailers)

Calculation:

Sales : Tk. 2220.00

Less: Cost and Expenses:

•	Leather shoe purchase	:	Tk.	1970.00
•	Salesmen salary	:	Tk.	10
•	Warehouse rent	:	Tk.	4
•	Shop rent	:	Tk.	16
•	Electricity	:	Tk.	4
•	Telephone bill	:	Tk.	1.50
•	Entertainment and Miscellaneous	:	Tk.	5.50
			
			Tk.	2011.00
			
	Profit calculation for value addition	:	Tk.	209.00

Value Addition : (2220-1970)
= Tk. 250

Value Addition Percentage : $\left(\frac{250}{2220} \times 100 \right)$

= 11.25%

Value Addition by Industrial Footwear Producer for Export Market

Assumption:

- Shoe (Ladies) : One pair
- Style : E 662C
- Leather required : 2.50 sft
- Purchase price of Leather : Tk. 300/sft.
- Selling price of shoe : Tk. 490(Export market)

Calculation:

Sales : Tk. 1725.00

Less: Cost and Expenses:

• Purchase of Leather (Upper) 2.5 sft @ Tk. 110	:	Tk.	750.00
• Jute Sole	:	Tk.	80.00
• Rubber Sole	:	Tk.	45.00
• Eva sheet and glue and fitting materials	:	Tk.	160.00
• Overhead (Factory, Office selling overhead, Financial expenses and export cost)	:	Tk.	400.00
		
		Tk.	1435.00
Profit calculation for value addition	:	
		Tk.	290.00
Value Addition	:		(1725-1035)
			= Tk. 690
Value Addition Percentage	:		$\left(\frac{690}{1725} \times 100 \right)$
			= 40%

Value Addition by Handmade Leather Goods Producer

Assumption:

- Production : Laptop Computer Leather Bag
- Leather Required : 14 sft
- Purchase Price : Tk. 160/sft
- Selling Price : Tk. 4200

Calculation:

Sales : Tk. 4,200.00

Less: Cost and Expenses:

- Leather(14 sft @ Tk. 160) : Tk. 2240.00
- Material (accessories) : Tk. 380.00
- Making charge : Tk. 500.00
- Overhead(Factory, administrative, marketing,
Overhead and financial expenses) : Tk. 190.00

.....
Tk. 3,310.00

Profit calculation for value addition : Tk. 890.00

Value Addition : (4,200-2,620)
= Tk. 1,580

Value Addition Percentage : $\left(\frac{1,580}{4,200} \times 100 \right)$

= 37.6%

Value Addition by Retailer of Handmade Leather Goods

Assumption:

- Purchase Price : Tk. 4200
- Selling Price : Tk. 5800

Calculation:

Sales	:	Tk.	5,800.00
Less: Cost and Expenses:			
• Purchase Price	:	Tk.	4,200.00
• Salesman Salary	:	Tk.	150.00
• Rent	:	Tk.	160.00
• Electricity	:	Tk.	35.00
• Telephone bill	:	Tk.	30.00
• Entertainment	:	Tk.	30.00
• Depreciation	:	Tk.	35.00
• Others	:	Tk.	40.00
		
		Tk.	4,680.00
		
Profit calculation for value addition	:	Tk.	1,120.00
Value Addition	:		(5,800-4,200)
			= Tk. 1600
Value Addition Percentage	:		$\left(\frac{1,600}{5,800} \times 100 \right)$
			= 27.5%

Value Addition by Leather Goods Producer Semi Industrial Approach

Assumption:

- Production : Ladies bag(Mesh/Weaving)best quality-exportable
- Style : Sakila
- Size : 28 CM 36 CM
- Raw material : Leather Strip
- Raw material required : 13.5 sft @ Tk. 240/sft
- Selling Price : Tk. 5500

Calculation:

Sales : Tk. 5,500.00

Less: Cost and Expenses:

• Leather(13.5 sft @ Tk. 110)	:	Tk.	3,240.00
• Lining	:	Tk.	125.00
• Zipper	:	Tk.	180.00
• Thread	:	Tk.	40.00
• ADHESIVE	:	Tk.	70.00
• Making Charge	:	Tk.	500.00
• Overhead(Factory,admin overhead, Financial Expenses and export cost)	:	Tk.	400.00
		
		Tk.	4555
Profit calculation for value addition	:	
		Tk.	945

$$\begin{aligned} \text{Value Addition} & : (5,500-3,655) \\ & = \text{Tk. 1845} \end{aligned}$$

$$\begin{aligned} \text{Value Addition Percentage} & : \left(\frac{1845}{5500} \times 100 \right) \\ & = 33.5\% \end{aligned}$$

Appendix C

Action Plan Template

- Background:
- Objectives:
- Key stakeholders group:
- Type of activities:
- Specification of related outputs and results:
- Description of linkages/relationships between activity clusters:
- Timeframe:

Estimated cost: € = Tk.

Appendix D

List of meetings

- Meeting with EU-INSPIRED COTR, experts and Team Leader
- Meeting with LFMEAB representatives (twice)
- Meeting with BTA representatives
- Meeting with BFLLFEA representative former president
- Meeting with ILET representatives
- Meeting with representatives of USAID-PRICE
- Meeting with representatives of Bangladesh Paduka Prostutkarak Samity
- Meeting with representatives of Chittagong paduka malik somity
- FGD with Leather Technologist SME Entrepreneurs group members
- FGD with Bhairab Paduka Karkhana Malik Somobay Somity
- Meeting with CEO of COEL
- Telephonic discussion with Coordinator BPC,MOC

Appendix E

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Board of Investment (BOI) - www.boibd.org

Bangladesh Bank (Central Bank of Bangladesh) -www.bangladesh-bank.org

JETRO survey on leather

http://www.jetro.go.jp/bangladesh/eng/link_files/survey_report.html

USAID-PRICE website- www.price-bd.com

World Bank Website -www.doingbusiness.org