Facilitating Indian investment in Ugandan leather

Leather is a strategic sector in many African countries, reflecting the continent's large livestock population, and governments are seeking foreign direct investment to help develop the sector.

As part of such efforts, the International Trade Centre (ITC) organized an investment delegation to East Africa in November 2016. ITC's Supporting Indian Trade and Investment for Africa (SITA) initiative worked with the All India Skin and Hide Tanners and Merchants Association to identify Indian companies interested in internationalizing.

The delegation travelled to Tanzania, Kenya and Uganda, where they visited tanneries and met with stakeholders from the public and private sectors. By taking potential Indian leather investors to East Africa and highlighting business opportunities, SITA was able to reduce misperceptions and information asymmetries.

Matching investors with opportunities

One of the Indian delegates, the owner of an SME from Ambur, Tamil Nadu, immediately decided to invest in Uganda. Familiar with the quality and cost of Ugandan leather through previous sourcing trips, he was impressed with the support and incentives offered by the Ugandan government. He saw potential in establishing the first shoe-manufacturing factory in Uganda. His vision was for every Ugandan schoolchild to wear shoes made in Uganda. That goal is in line with the country's 'Buy Uganda, Build Uganda' policy.

His plan to establish a footwear facility producing 1000 pairs of shoes per day and employing 500 employees (95% women) would be just the first step. Uganda possesses high-quality raw material (hides), which are currently exported in semi-processed ('wet blue') form to international markets. Ugandan leather producers would have produced the finished leather themselves to capture the full added value in the value chain. By setting up a leather finishing plant adjacent to the shoe factory, a 100% Ugandan product for the Ugandan market could be produced.

Turning dream into reality

It took the investor, accompanied by SITA, three more trips to Uganda during 2017 to choose a location for the factory and become familiar with the government's rules and regulations on foreign investments.

He encountered a number of challenges. As the land in his preferred location – Namanve Industrial and Business

Park in the outskirts of Kampala – was not immediately available, he had to settle for a temporarily rented building while applying for his land allocation.

In addition, registering the new company took longer than expected. When the first shipment of machinery and accessories arrived from India in November 2017, he also realized that the business environment was not as conducive as the government had described. This was particularly the case regarding import duty exemptions and investment incentives. In addition, after training of the workforce started in mid-2018, there was high labour turnover, leading to new hires having to be trained from scratch.

Production of men's, women's and children's footwear started in August 2018, bringing further challenges, particularly regarding marketability. Although Ugandan buyers recognized the superior product quality, they are very price sensitive, especially as there are many smuggled imports and second-hand products on the local market. These are a disincentive to local production and affect the Ugandan government's revenue collection, but are beyond the control of individual investors. Tackling this problem is necessary if domestic manufacturing is to increase in Uganda.

Nonetheless, the Indian SME entrepreneur turned Ugandan shoemaker is not giving up on his dream, despite the initial difficulties. With its 40 employees, 38 of whom are women, the company is ready to secure its first institutional order. He believes he will succeed, paving the way for developing a value-added leather industry in the country.

Role of an investment facilitator

Not all investors are same. Some require more support than others to understand and navigate new business environments, reflecting their size and previous international experience. By supporting this investor, SITA helped to facilitate the investment. This included facilitating communication with government agencies and high-level representatives; assistance with finding and securing a suitable manufacturing location; helping to develop a business plan incorporating detailed investment objectives; and helping to procure support from national institutions.

Furthermore, SITA is working with the investor and the Ugandan government to resolve challenges and maintain momentum in realizing the objectives of both parties. This has included sensitizing policymakers across ministries and institutions regarding the needs of overseas investors so that needs are met and promises kept.

That an SME chose to be an investor in the Ugandan leather sector is a success in itself. However, it is up to national institutions to ensure that such success becomes lasting. The success of one investor can attract many more players, both domestic and international. To quote the chairman of India's largest shoe manufacturer: 'It does not matter what size your business is. It takes guts to venture into new geographies.'

Source: ITC.