



# Inclusive Sector Growth Strategy – Leather

Market Development Facility - Pakistan

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Pakistan Country Team

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## Summary of the Main Findings

China currently dominates the conversion of leather into finished leather goods; however, with rising labour costs, production is moving to other developing economies. While the global demand for leather garments is stable, the demand for shoes, accessories and upholstery products continues to expand. Modern leather goods incorporate components of both natural leather and composites, and some items may not contain leather.

### The Leather Sector in Pakistan

Close to 85 percent of all leather produced in Pakistan—on an area basis—is exported as finished leather. Finished leather represents 44 percent of the value of exported leather, while leather goods represent 56 percent of the value exported. These statistics clearly establish the economic opportunity and the potential benefit to the country if more of the finished leather was converted into retail-ready goods in Pakistan. Leather goods are exported in the form of garments, gloves, sports goods and footwear. Footwear and other items are also manufactured for the domestic market.

USD 1 billion of leather and leather goods per annum are exported from Pakistan. Finished leather exports are 27 million m<sup>2</sup>, valued at USD 450 million, while finished leather goods comprise 4.5 million m<sup>2</sup>, contributing USD 550 million to export receipts. The potential of value adding indicates that if all finished leather was converted into retail-ready leather goods, this would potentially add about USD 3 billion to the Pakistani economy.

Pakistan is well positioned in this regard because of the availability of finished leather and competitive labour costs. Growth has been restrained by an inability to meet rigorous customer requirements, including a fast turnaround for fashion items and having compliance certification.

### Skin and Hide Supply

Farming in Pakistan is mainly rural on a very small commercial scale. Leather is a by-product of meat production. Livestock are reared using poor husbandry practices and in conditions that make the animals vulnerable to skin diseases, such as the warble fly disease (common in Sindh), rashes and other skin infections. These diseases affect the quality of the hides and skins. The peak season for producing hides and skins is *Eid-ul-Azha* when animals are sacrificed for religious purposes, and the flaying techniques used reduce the potential for the production of quality leather. It is estimated that 25 percent of the skins and hides are imported by the Pakistan leather industry from countries in Africa, the Middle East and Australasia to supplement local supply. While skin and hide quality is important, it is notoriously difficult to get price signals to flow, owing to skins and hides being only a by-product and a low percentage of the animal's value.

## Retail-Ready Leather Goods

Production of retail-ready leather goods in Pakistan must be globally competitive if it is to source the domestically produced finished leather at international benchmark prices and produce leather goods that are competitively priced. It is important to recognise that modern production of footwear, accessories, etc. involves a wide variety of leather, fabric and composite components. MDF will consider becoming involved with businesses where finished leather input is limited when the potential for economic and employment growth is significant.

Access to technology and equipment will be important for expanding the production of leather goods. Support for the manufacturing component of the leather goods industry has been under-developed as the primary focus has been on tanning since the industry was established in Pakistan. There has been little investment in the support industry for leather goods manufacturing resulting in a high import dependency for ancillary items (e.g. lasts and moulds) and consumable accessories (e.g. zippers, fasteners, etc.). Reliance on imports for ancillaries and inputs leads to increased costs and delays in providing samples and supplying orders for international customers.

The continuous tightening of regulations in international markets has led to the need for an increased visibility across the supply chain associated with the manufacture of all retail-ready items, including leather goods. The global trend is towards tighter regulatory environments (with more countries requiring certification for imports) and increasing customer demands to comply with socially responsible business requirements. Taking advantage of market opportunities requires compliance with increasingly stringent market and customer requirements. This is particularly important for the EU market as Pakistan was granted GSP+ status, effective as of January 2013. There is a lack of testing facilities in Pakistan capable of certifying compliance with requirements.

The domestic market potential for finished leather goods has not been fully developed. There are also players, such as HUB and Jafferjees, which produce leather accessories for the domestic market. These accessories include high quality belts, wallets, handbags, cases and wheelers. Although the quality delivered by such domestic players is high, their design capability is weak, with their product lines unable to keep up with the latest trends in the local and international markets.

A significant volume of footwear produced in Pakistan is destined for the domestic market, estimated to be in the region of 50 percent of demand. In the domestic footwear sector, manufacturers mainly cater to men, and women's footwear is mostly imported. The main reason appears to be that fashion and seasonality in women's footwear requires exemplary design skills coupled with manufacturing processes able to comply with demands for fast delivery and short runs. Some of the vacuum in ladies shoes manufacturing is filled by the domestic cottage industry producing leather, fabric and polyurethane shoes.

The development of international brand recognition for domestic leather goods manufacturers has proved and will continue to be challenging. International leather goods have global brands, making it difficult for an individual country to develop its own global brand. There is also a gap between the demand for changing trends and domestic supply of finished leather goods, which could be assisted by improved in-house and public sector training in design.

Traditional leather goods manufacturers in Pakistan are not dynamic in experimenting with newer business models and direct marketing, and both aspects would provide opportunities to expand production.

A shortage of skilled labour is a constraint the leather industry faces in Pakistan. Leather goods manufacturers find it difficult to hire and retain skilled workers. The skills situation is further exacerbated by the industry itself. Manufacturers of finished leather goods do not generally offer a premium to skilled workers and the impact of seasonality on labour demand leads to outsourcing. Retention is also problematic in the leather apparel industry, which hires seasonal labour through contractors on a piece-rate basis. The leather goods sector is not as big as the textile sector in Pakistan, so workers interested in this type of work drift towards the textile sector, leading to a high labour turnover rate in leather-based retail-ready goods manufacturing.

The industry also employs some women as waged labour either directly by the enterprise, or as outsourced labour using a contractor. Women are often employed in stitching as this is a sedentary role not involving the use of heavy machinery. Women are also reported to have better focus, concentration and greater attention to detail. In many cases, they are paid on a piece-rate basis. In the case of outsourced labour, it is difficult to ascertain if their remuneration or working conditions are adequate. The lack of appropriate transportation is a major impediment for women. Furthermore, training institutes offer fewer courses for women: as women cannot attend mixed classes, courses will only run if there are sufficient numbers enrolled. Some women also work in design and quality control, but the ratio of female to male workers continues to be low. Businesses also hire women to comply with certification requirements, which in turn help secure more orders from foreign buyers.

Meeting environmental compliance standards has always been challenging for tanneries as they produce waste in three forms: solid, liquid and gas. Liquid waste is the biggest challenge for tanneries as the amount produced per kilogramme of hide is between 50 and 60 litres.<sup>1</sup> Contaminants in the liquid waste must be treated by an effluent treatment plant before being discharged into water bodies. Many millions of dollars have been directed at addressing this problem in tanneries with some limited successes.

The major environmental concern for leather goods manufacturers is the chemicals and residues retained in the leather and managing solid waste material.

Environmental compliance may constrain the industry from taking advantage of Pakistan's GSP+ status for export to the EU market. However, there may be opportunities to make use of the effluent treatment plants for Korangi and Sialkot's planned Cleaner Production Centre.

While the tanning industry is able to represent adequately areas where the public sector needs to take action, the leather goods industry is less well organised in representing relevant business

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<sup>1</sup> Leather sector report, EPTI

environmental issues. Leather industry support from the public sector and donors has been focused on addressing environmental issues associated with tanning. There has been very little support activity for the manufacture of retail-ready leather goods.

There is significant growth potential in the conversion of finished leather into retail-ready leather goods in Pakistan. While the amount currently being converted into leather goods is small, it is clear there are already a number of integrated and trading enterprises that are operating in this area, and these are being serviced by a variety of support companies. There are a number of organisations MDF can partner with to address constraints and increase economic growth and employment generation for men and women in the leather goods manufacturing sector, to improve competitiveness, product innovation and boost production for both domestic and export markets.

## MDF's Approach

The pathways to making the leather goods market work more effectively include:

- Improving productivity, competitiveness and lead times
- Increasing access to technology, ancillaries, consumables and other inputs
- Upgrading manufacturing skills and design capabilities
- Improving market access and visibility
- Increasing access to business support services, and
- Business environment improvement.

All of which lead to increased investment in manufacturing plants.

In the leather goods sector MDF will work with partners to overcome constraints in leather-based retail-ready goods manufacturing to increase employment of the urban poor (men and women) in value-adding activities. Addressing these constraints includes: building a domestic support industry; improving the supply of skilled labour (male and female); addressing industry productivity, innovation and competitiveness; accessing more markets and improving business information in order to increase competitiveness; improving product innovation; and boosting production for both domestic and export markets.

To achieve this, MDF will identify partner organisations which have the ability and incentive to invest in innovative business practices and business expansion to reduce constraints and improve the functioning of leather goods industry manufacturing and marketing systems.

Table 1 below lists the key constraints based on the sector assessment findings and summarises the reasons for each.

Table 2 translates these constraints into market opportunities and identifies potential partners with which MDF could work to address these opportunities. Potential partners include tanneries, leather goods manufacturers, the ancillary industry, service providers, retailers, wholesalers, transporters, etc., as well as the public sector organisations shaping the business environment around these actors.

Finally, Table 3 brings all these aspects together in a comprehensive manner and serves as the strategy table for MDF's work in the leather sector.

## Key Constraints

As summarised above, the leather market system in Pakistan has a number of key constraints, and MDF has identified seven, which hinder the development of the leather sector. These constraint areas are elaborated upon in detail in the table below. ‘Special Interest Areas’ do not refer to a separate constraint, but to areas in which a number of constraints come together. Hence, these are areas in which MDF will make a special effort to identify sustainable solutions to these problems.

**Table 1: Summary of the Constraint Areas in Leather**

Constraint Area	Explanation and Causes
1. Lack of investment in value-added goods manufacture	<ul style="list-style-type: none"> <li>▪ Pakistan exports 95% of all leather produced in the country. 85% of these exports comprise finished leather without value addition into retail-ready leather goods.</li> <li>▪ Domestic tanneries are able to manufacture quality finished leather (fit for purpose), which is exported to markets, such as Hong Kong, Italy, China and Germany. Tanners receive a good return from export markets and have established long-term customer relationships, with which the domestic leather goods industry must compete.</li> <li>▪ Pakistan exports wet blue (semi-finished leather) to China.</li> <li>▪ The leather sector also imports 25% of hides and skins from the Middle East, Africa and Australasia, indicating a degree of global competitiveness.</li> <li>▪ Export-oriented leather goods manufacturing, which is directed towards apparel, suffers from seasonal demand (high northern and little southern hemisphere demand), impacting negatively on competitiveness and retention of labour.</li> <li>▪ Production of higher-margin goods, such as footwear, hand bags and accessories, have less seasonal demand variation, but still must follow fashion trends. Global markets are increasing, and there is potential for significant future growth.</li> <li>▪ Sports and motorbike accessories, and industrial leather goods production is established and has potential for further growth.</li> <li>▪ Pakistani leather goods manufacturers face production and price competition from other manufacturers in India, Bangladesh, China and Turkey, but the sector recognises that its competitive position is improving (especially against Chinese production), and it has the raw material (finished leather) readily available.</li> <li>▪ The situation is such that the leather goods industry has a good opportunity to expand the manufacture of retail-ready leather goods, but there may be less opportunity in the manufacture of apparel, unless better coordination with the textile sector can be established.</li> <li>▪ - The investment required to move from finished leather to leather goods is limited by a number of factors, including a shortage of skilled male and female labour, the absence of local support industries and services, and limited customer exposure, which combine to restrict the current competitive position of leather goods manufacturers.</li> </ul>
2. Lack of domestic technology, an ancillary and a components industry for leather goods manufacturing impacts on export competitiveness.	<ul style="list-style-type: none"> <li>▪ Investment in an ancillary industry as well as in other inputs required by the leather footwear, apparel and accessories industries have not been made, resulting in a dependency on imported technology, ancillaries and consumables. This leads to increased response times and higher production costs (freight costs and exchange rate fluctuations), which lower profit margins and adversely affect export competitiveness.</li> <li>▪ The absence of a local component support industry forces manufacturers to import ancillaries (e.g. lasts and moulds) and consumable accessories (e.g. zippers, lining), or produce them in-house (e.g. shoe soles), thus lowering efficiency.</li> <li>▪ While the leather apparel manufacturers have some links with the large and dynamic textile sector; footwear and accessories manufacturers have limited access to good production practice advice and technology.</li> </ul>



Constraint Area	Explanation and Causes
<p>3. Lack of third party compliance support results in a failure to gain customer orders.</p>	<ul style="list-style-type: none"> <li>▪ The global market trend for leather goods is moving towards a tighter regulatory environment and increased customer-based compliance requirements. Global importers are increasingly requiring third party certification for imports.</li> <li>▪ The EU conferred on Pakistan the GSP+ status in December 2013, which waives all duties and tariffs on Pakistani exports to the EU for ten years, but market entry is dependent on meeting certification requirements, such as Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH).</li> <li>▪ The public sector has built some laboratories, but the services offered are limited. PCSIR and CPC laboratories were set up from public and donor investment, but are unable to maintain requisite service standards and lack international accreditation.</li> <li>▪ Private sector companies, such as TTI, SGS and Intertek, offer limited testing services, but the majority of tests are conducted abroad, which is more expensive and time consuming.</li> <li>▪ There are currently no third parties located in Pakistan that provide certification of compliance with environmental and socially responsible business (ESRB) conditions.</li> </ul>
<p>4. Insufficient expertise in marketing, designing and product development inhibits growth.</p>	<ul style="list-style-type: none"> <li>▪ The domestic market has not been fully developed; while a number of footwear manufacturers produce for the domestic market, only two players, HUB and Jafferjees, produce leather accessories. Although these domestic players produce high quality items, their design capability is weak: their product lines are unable to keep up with the latest trends in the local market and compete with international brands.</li> <li>▪ Domestic footwear manufacturers produce mainly men’s shoes and women footwear is under represented. This vacuum in the industry is filled by imports, supported by limited domestic cottage industry producing leather and polyurethane shoes.</li> <li>▪ The Pakistan Institute of Fashion Design is the only institution that offers training in leather goods design.</li> <li>▪ The trend for export-oriented leather goods manufacturers is to produce goods either according to the designs specified by foreign buyers, or replicate overseas designs, particularly for the domestic market.</li> <li>▪ Global brand recognition through the development of brick and mortar stores has proved and will continue to be challenging for traditional leather goods manufacturers.</li> <li>▪ Traditional leather goods manufacturers are not dynamic in experimenting with newer business models and marketing to consumers directly.</li> <li>▪ Short-term growth in footwear and accessories manufacture is most likely to result from Pakistani manufacturers producing on behalf of global branded customers, and this will require full compliance with customer demands, including assuring that intellectual property will be protected.</li> </ul>

Constraint Area	Explanation and Causes
5. Shortage of skilled labour	<p><u>Men and Women:</u></p> <ul style="list-style-type: none"> <li>▪ Leather goods manufacturers find it difficult to hire and retain skilled labour. The leather goods industry, apparel producers in particular, do not offer a premium to skilled workers, leading to a situation where the demand for vocational training is low. In addition, the leather apparel industry, which is subject to seasonality, hires casual labour on a piece-rate basis, through contractors and this leads to a high skills turnover. Leather apparel is not as big as the textile apparel sector, and good workers are unable to see a clear growth trajectory in leather and move to textiles.</li> <li>▪ Training institutes offer a variety of courses applicable to tanneries, but have very limited leather goods manufacturing courses. NILT, GILT, LPDI and Charsaddah Institute struggle to maintain enrolment, and tanners often prefer to employ well trained expatriates (from India, Bangladesh, etc.).</li> <li>▪ Training curriculums and teaching skills need to be upgraded and made appropriate to industry needs (e.g. leather goods manufacturing rather than artisan skills) or, alternatively, manufacturers need to be able to access better overseas training.</li> </ul> <p><u>Women:</u></p> <ul style="list-style-type: none"> <li>▪ Women are particularly involved in stitching, either for enterprises or for third party contractors. They may be paid on a piece-rate basis, making it difficult to ensure if compensation is adequate. For outsourced work, working conditions are not monitored. These issues impede labour retention.</li> <li>▪ Institutes offer few training courses for women, and only when enrolment is sufficient, as women will not attend mixed classes.</li> <li>▪ Women are employed in roles, such as stitching, which do not involve the use of heavy machinery. Women are noted to have better focus, concentration and attention to detail. However, management challenges prevail, limiting the engagement of women in the industry.</li> <li>▪ For women to work in the sector, they usually require segregated transportation, and a segregated workplace with separate restrooms and cafeterias.</li> <li>▪ It is also preferable to have female supervisors for women-only production floors, but as they are usually unavailable, aged male supervisors are required.</li> <li>▪ Female supervisors are difficult to find because of retention problems and a lack of upward mobility (reasons for which need to be further explored).</li> <li>▪ Women may also require specific human resources policy, such as for maternity and extended leave for marriage.</li> </ul>
6. Environmental compliance and socially responsible business	<ul style="list-style-type: none"> <li>▪ International buyers of finished leather and leather goods require a higher degree of compliance with environmental regulations and ESRB principles.</li> <li>▪ Tanneries emit contaminants in their wastewater, which must be treated by an effluent treatment plant before discharging it into waterways. Chromium is one such contaminant, which can be recycled. Recycling involves capital and operating costs, but can reduce fresh chrome costs by up to 30%.</li> <li>▪ These plants are expensive to set up, and smaller units are unable to make the investment. Some larger units in Lahore and Sialkot have their own plants, such as Leatherfield and Royal Leather.</li> <li>▪ Treatment plants serving a number of tanneries can address the problem, but tanneries must be situated in close proximity for this to be practical. Such a plant was set up in the Korangi Industrial Area in Karachi with assistance from the Dutch government, where a number of tanneries were relocated. In Sialkot, a similar tannery zone is proposed but tanneries have not relocated, and the treatment plant is yet to be constructed.</li> <li>▪ Retail-ready leather goods manufacturers need to be able to source leather from tanneries that comply with customer, residue and ESRB requirements.</li> </ul>

Constraint Area	Explanation and Causes
7. Rules and regulations	<ul style="list-style-type: none"> <li>▪ Until 2013 live animals were mainly exported or smuggled to the Middle East, Iran and Afghanistan. Export is now banned, though smuggling may still occur. The ban may make more hides and skins available for tanning.</li> <li>▪ Duty drawback for leather (0.8 to 1.17%) does not cover the duty on imported products, thereby discouraging the production of finished leather and leather goods.</li> <li>▪ The government has imposed duties on the export of wet blue, as it is a low value-added product; however, some exporters bypass this restriction by miscategorising their shipments.</li> <li>▪ Poor utilities infrastructure (electricity and water supply) disrupts production and causes higher costs, e.g. owing to the need to run generators.</li> <li>▪ Political instability and the weak role of the state results in frequent supply chain disruptions because strikes and political rallies lead to delays in fulfilling orders. The poor security situation also deters foreign buyers from visiting and placing orders.</li> <li>▪ Pakistan has banned all export of fur, which is a problem for leather apparel exporters that may use fur linings in their jackets.</li> </ul>
Special Attention Areas	
Urban poverty and gender	<ul style="list-style-type: none"> <li>▪ Manufacture of leather goods requires a high level of shop floor labour. Manufacturers are located in urban and peri-urban areas and draw on local labour to meet their needs. The localised urban and peri-urban labour required for semi-skilled shop floor duties will predominantly be sourced from lower income households.</li> <li>▪ Women are traditionally employed in apparel and footwear stitching, decorating accessories, and designing and stitching moccasins. Moccasin stitching is contracted out to women working from home, and they may or may not receive adequate compensation.</li> <li>▪ It is important to ensure that women are adequately compensated, have safe working conditions and can receive training if they desire.</li> <li>▪ There is some outsourcing and artisanal production of leather goods (though not well understood at this stage), and this subsector is likely to employ a high proportion of both men and women from low-income households.</li> </ul>
Remote regions	<ul style="list-style-type: none"> <li>▪ Sheep are abundant in Balochistan, but sheepskins from that region often do not reach the tanneries in Karachi and Punjab for processing into finished leather (though some go to Iranian tanneries).</li> <li>▪ Balochistan is too far from formal industry to participate effectively without incurring significant costs when transporting to urban centres.</li> <li>▪ The area is also characterised by a relatively low population density and low formal industry involvement, as compared to the rest of the country, and this causes an inability to assemble sufficient skins for an economical transport load.</li> </ul>
Safe and socially responsible working conditions	<ul style="list-style-type: none"> <li>▪ Child labour had been a problem for exporting manufacturers, but it has been significantly reduced in response to the demands of international buyers. Bigger production units have policies against underage employment.</li> <li>▪ Safe working conditions need to be ensured at all premises where outsourced labour works. Transport facilities for women may be needed.</li> <li>▪ Hazardous waste is emitted in leather manufacturing in the form of effluents and fumes. Environmental standards in Pakistan are lax, and the treatment of waste water from tanneries is not strictly monitored and enforced. The global trend has been to outsource environmentally hazardous processes to developing countries, which for leather includes tanning.</li> <li>▪ Leather goods are increasingly required to meet international and customer-based residue requirements.</li> </ul>

## Opportunities to Address Key Constraints

MDF’s strategy in leather will involve building a portfolio of partnerships with businesses in intervention areas corresponding to the identified constraints. In Table 2, constraint areas have been translated into intervention areas.

**Table 2: Intervention Areas and Potential Opportunities to Reduce Constraints**

Intervention Area	Opportunities
1. Improve the ability of local finished goods manufacturers to source local leather and increase investment.	<ul style="list-style-type: none"> <li>▪ Help the industry to focus resources and attention on higher-margin products, such as footwear, including women’s shoes as a new market, rather than apparel, which is seasonal and uses more leather by area.</li> <li>▪ Intervention areas two and three are required to improve the competitiveness of leather goods exporters, enabling them to increase their margins. This will improve the ability of manufacturers to source high quality finished leather produced domestically.</li> </ul> <p>The support is to focus on:</p> <ul style="list-style-type: none"> <li>▪ Tanneries expanding their operations downstream into manufacturing higher value-added goods;</li> <li>▪ Finished leather goods manufacturers establishing robust third party manufacturing relationships with international customers;</li> <li>▪ Entrepreneurs, both formal and informal, male and female, to expand or establish finished leather goods manufacturing</li> </ul>
2. Invest in establishing or expanding the local availability of technology, ancillaries and components.	<ul style="list-style-type: none"> <li>▪ Support local companies to invest in the ancillary industry (e.g. shoe lasts, soles and moulds for footwear, zippers and lining for apparel and accessories) for leather goods manufacturing.</li> <li>▪ Support the existing local ancillary industry to improve their product quality and operations.</li> <li>▪ Support local companies to start producing chemicals and dyeing locally for the tanning industry.</li> <li>▪ Support local companies to manufacture leather goods accessory components.</li> <li>▪ Support technology and business service providers to be active in Pakistan, and provide a range of inputs and services suitable for leather goods manufacturing.</li> </ul> <p>The focus is on gaining a competitive advantage by reducing the response time and costs (freight, import duties), and increasing the production and profit margins through increased orders from existing and new customers.</p>
3. Establish third party compliance support to increase customer orders.	<ul style="list-style-type: none"> <li>▪ Work with private and public testing service providers to expand their operations to offer locally a wider range of tests as per the international requirements, e.g. the EU’s REACH requirement.</li> <li>▪ Work with private and public certification organisations to reduce the costs associated with compliance and meet certification requirements for end markets and customers.</li> </ul> <p>Enable leather manufacturers to reduce their response time and costs, and improve the ease of accessing high-value markets that require extensive certification and compliance.</p>

Intervention Area	Opportunities
<p>4. Invest in improving expertise in marketing, designing, and product development to foster growth.</p>	<ul style="list-style-type: none"> <li>▪ Support leather goods manufacturers in developing their in-house design capabilities and improving product development capacity.</li> <li>▪ Support local design houses in enhancing their product design skills and product range to scale up operations.</li> <li>▪ Support leather goods manufacturers to tap into global markets through innovative branding and non-traditional marketing strategies, such as e-commerce and e-retailing.</li> <li>▪ Encourage footwear manufacturers to diversify into women’s footwear by developing product lines catering to women.</li> <li>▪ Assist design schools in developing up-to-date curriculums incorporating leather goods design (including a component of composite retail-ready goods).</li> </ul> <p>Pakistan’s leather goods manufacturers will improve their competitiveness in marketing, designing and product development, and thus enter new markets and product categories leading to an increase in revenue.</p>
<p>5. Improve labour availability and skills.</p>	<p><u>Men and Women:</u></p> <ul style="list-style-type: none"> <li>▪ Support associations and consortiums between key industry players to determine training needs, and assist training institutes to provide common training facilities for different entities.</li> <li>▪ Support training institutes in a) curriculum upgrade and expansion in consultation with curriculum design experts as per industry needs; and b) conducting workshops.</li> <li>▪ Work with leather goods manufacturers to improve their human resource management practices, such as higher wages, higher return for workers, better retention rates, fair hiring practices and women-friendly recruitment drives, anti-harassment policies, a clear career growth trajectory, make technical courses more attractive.</li> </ul> <p><u>Women:</u></p> <ul style="list-style-type: none"> <li>▪ Work with leather goods manufacturers, contractors and/or service providers to improve working conditions and compensation packages, as well as transport services (directly through leather goods manufacturers or dedicated routes through public/private transport companies) for women, including segregated workplaces and day care facilities. Other services, such as leave packages (for marriage and maternity), marriage loans, return-to-work schemes, flexible hours, income savings schemes (personal salaried/savings accounts, cash card systems, etc. to manage incomes better) may also be explored.</li> <li>▪ Support leading businesses to set up women-only stitching centres to change social norms around employment, and demonstrate this to the industry.</li> <li>▪ Work with training institutes, leather goods manufacturers and industry consortiums to increase the training opportunities for women.</li> <li>▪ Explore opportunities to diversify skills sets by offering more in-house and specialised training courses, and expanding opportunities for upward and lateral mobility.</li> </ul> <p>Improved labour availability, skills and retention will support expansion in the production of quality leather goods.</p>
<p>6. Ensure environmental and socially responsible business compliance.</p>	<ul style="list-style-type: none"> <li>▪ Support leather goods manufacturers to achieve compliance with environmental and socially responsible business certification requirements.</li> <li>▪ Support leather goods manufacturers to encourage upstream suppliers (e.g. tanners) to comply with customer-based ESRB requirements. There is no intention to assist tanneries directly to comply, but instead to assist the leather goods manufacturers to identify and select compliant suppliers.</li> </ul> <p>Improved compliance will lead to more orders and increased production of retail-ready leather goods.</p>

Intervention Area	Opportunities
7. Rules and regulations	<ul style="list-style-type: none"> <li>▪ Support Business Membership Organisations (BMOs) to lobby for improvements in the business environment in which leather goods manufacturing enterprises operate.</li> <li>▪ Specifically support BMOs in lobbying the government for a change in duties and tax structure to encourage the production of leather goods and overcome production restrictions adequately (e.g. use of fur in products).</li> </ul> <p>Such measures will lead to an improved business environment for the manufacture of leather goods in Pakistan.</p>
Special Attention Areas	
Urban poverty and gender	<ul style="list-style-type: none"> <li>▪ Growth in the manufacture of retail-ready finished leather goods will provide opportunities for women, as well as men, in urban areas. Significantly more employment is generated by converting leather to leather goods compared to employment in tanneries. Growth in the manufacturing of retail-ready leather goods will increase urban employment.</li> </ul>
Improved market access in remote regions	<ul style="list-style-type: none"> <li>▪ Improve transportation and procurement networks so that sheep farmers from Balochistan can be linked with formal markets, and tanners can source sheepskins from the area. The returns for the skins, however, must be better than the current options (e.g. export to Iran).</li> </ul>
Safe and socially responsible working conditions	<ul style="list-style-type: none"> <li>▪ Work with associations to implement conditions where enterprises benefit from eliminating underage employment and complying with environmental requirements.</li> <li>▪ Work with leather goods manufacturers, industry associations and contractors to ensure proper working conditions for both in-house and outsourced labour (including women), and meet transportation and support needs where required.</li> </ul>

## Sector Growth Strategy for Leather

Based on the constraints and opportunities described above, the following strategy has been formulated for MDF’s work in the leather sector in Pakistan (Table 3).

MDF has identified the pathway for change in the leather sector as:

***Retail-ready leather goods manufacturers build capacity and have access to improved support services and inputs, enabling them to expand production and supply new products to current and new markets.***

**Table 3: Sector Growth Strategy for Leather**

Intervention Area	Markets to be Influenced	Anticipated Results if Markets Start to Work Better	Contribution to WEE Objectives (if applicable)	Potential Partners
1. Finished goods manufacturers need to source local leather and increase investment.	Finished goods manufacturers move towards higher margin products, such as footwear and accessories, therefore increasing profitability. This will make the finished goods manufacturing sector more lucrative, relative to tanning and wet blue exports, encouraging investment in value addition. Goods manufacturers will begin to procure more domestically produced finished leather. Gradually the sector dynamics will shift from a focus on finished leather exports to finished goods exports. Ultimately, more finished leather will be locally converted into higher margin, value-added goods.	Shift in production to higher margin products >> greater profit as manufactured exports are more lucrative >> investments in value addition >> more finished leather procured by goods manufacturers >> industry moves towards value addition >> more employment creation for men and women, and income generation.	It is anticipated that increased production will lead to increased employment opportunities for women in the sector (Domain 4), thereby increasing their incomes (Domain 1). When women have more control over the income streams they receive and are better connected through a formal workplace, they have more options to negotiate and improved decision making (Domain 2).	Retailers, traders, leather goods manufacturers, finished leather manufacturers, integrated and service tanneries.
2. Suppliers of quality ancillaries, components and technology invest in establishing and expanding local availability.	New enterprises make investments and begin to manufacture ancillaries and components, and supply technology resulting in reduced costs and response time for leather goods manufacturers, thereby improving their competitiveness.	Local ancillaries and components are readily available >> shorter response time and cost effectiveness >> increased competitiveness >> new markets and more sales volume >> higher enterprise income >> increased production >> increased employment creation for men and women, and increased income.	Same as intervention area #1.	Importers, distributors and manufacturers of ancillaries and components, investors, leather goods manufacturers.

Intervention Area	Markets to be Influenced	Anticipated Results if Markets Start to Work Better	Contribution to WEE Objectives (if applicable)	Potential Partners
3. Third party compliance providers are engaged to support finished goods manufacturers to increase customer orders.	Finished leather and finished leather goods exporters are able to receive internationally acceptable certifications locally, improving their response time and cost effectiveness, resulting in increased competitiveness among international players.	Local testing services are available >> shorter response time and cost effectiveness >> increased competitiveness >> new markets and more sales volume >> higher enterprise income >> increased production >> increased employment creation for men and women, and increased income.	Same as intervention area #1.	Private and publicly funded testing laboratories, Pakistan National Accreditation Council (PNAC).
4. Finished goods manufacturers invest in improving expertise in marketing, designing and product development to foster growth.	Existing and new leather goods manufacturers develop new product lines by improving their product design and variety. These improved leather goods are targeted towards new market segments domestically and internationally, using innovative marketing channels, resulting in increased market penetration across a broader variety of products.	New and improved product design >> new markets and more sales volume >> higher enterprise income >> increased production >> increased employment creation for men and women, and increased income.	Same as intervention area #1.	Design houses, fashion institutes, leather goods manufacturers diversifying into in-house designing, leather start-ups.



Intervention Area	Markets to be Influenced	Anticipated Results if Markets Start to Work Better	Contribution to WEE Objectives (if applicable)	Potential Partners
<p>5. Investment in in-house and third party training improves the availability and skills of male and female labour.</p>	<p>The labour market functions better as labour becomes more highly trained and wages improve, leading to longer retention of skilled male and female workers. The stability in the labour market will make it easier for leather goods manufacturers to diversify into wider and more innovative product categories and higher value-added goods.</p>	<p>Highly trained and adequately compensated labour &gt;&gt; skilled workers and higher retention &gt;&gt; labour market stability &gt;&gt; fewer risks attached to diversifying into new products and value-added goods &gt;&gt; new markets and more sales volume &gt;&gt; higher enterprise income &gt;&gt; increased production &gt;&gt; increased employment creation for men and women, and increased income.</p>	<p>Women will have access to more training (and thus employment) opportunities (Domain 4) leading to increased income (Domain 1). Higher skilled women may have more options for upward and lateral mobility, thus increasing the options available to them (Domain 2).</p>	<p>Training institutes, associations, consortiums, leather goods manufacturers, labour unions, day care facilities, transportation companies, financial institutions, HR service providers.</p>
<p>6. Finished goods manufacturers identify and select suppliers that comply with environmental and socially responsible business requirements.</p>	<p>Finished goods manufacturers increase compliance with environmental and socially responsible business practices, and pressure from the finished goods manufacturers encourages component suppliers (including leather) to comply, thus making Pakistani enterprises more attractive to international customers.</p>	<p>Business compliance &gt;&gt; increased international business from new and existing buyers &gt;&gt; increased sales volume &gt;&gt; higher enterprise income &gt;&gt; increased production &gt;&gt; increased employment creation for men and women, and increased income.</p>	<p>As entities become more socially responsible, women have a greater likelihood of being employed (Domain 4), earning incomes, (Domain 1) and increasing their options (Domain 2) in suitable working conditions (Domain 5). Women may also receive support from the entities in managing their productive and parental workloads (Domain 3).</p>	<p>Finished goods manufacturers and associations, donors- public/private, partners investing in ESRB compliance.</p>

Intervention Area	Markets to be Influenced	Anticipated Results if Markets Start to Work Better	Contribution to WEE Objectives (if applicable)	Potential Partners
7. Rules and regulations are modified to assist finished goods manufacturers to compete in domestic and global markets.	Successful lobbying to improve the rules and regulations for the business environment in which leather goods manufacturing enterprises operate will lead to improvement in competitive positioning in relation to sourcing finished leather, operating leather goods manufacturing enterprises and accessing export markets.	Business environment incentivises value addition >> more finished leather domestically converted into leather goods >> increased exports >> increased sales revenues >> higher enterprise income >> increased production >> increased employment creation for men and women, and increased income.	Same as intervention area #1.	Pakistan Customs, Federal Board of Revenue, Ministry of Commerce and Trade, BMOs.
<b>Special Attention Areas</b>				
Urban poverty and gender	As the leather sector shifts towards goods manufacturing, more employment opportunities for poor men and women in urban areas will be generated. The sector growth will create more jobs for women, particularly in stitching and other areas. It is also expected that as the industry moves towards higher value generation, wages will rise.	Manufacturing of value-added leather goods increases >> greater enterprise income >> increased production >> increased employment, and increased wages for poor men and women	Women are more likely to access training and employment opportunities (Domain 4), and thus earn higher incomes (Domain 1). They may gain access to other workplace amenities (Domain 5). They may also have more options available for lateral or upward mobility (Domain 2). Entities may also provide support in making their productive or parental workloads manageable (Domain 3).	Finished goods manufacturers
Improved market access in remote regions	Linkages can be developed between livestock farmers in Balochistan and formal markets in Northern Punjab and Karachi, where the majority of tanneries and leather goods manufacturers are located.	Improved linkages to formal markets >> more income for livestock farmers in remote areas and sheepskins locally available to processors	Same as intervention area #1	Transporters, <i>arthis</i> (middlemen), tanneries, traders, finished goods manufacturers

Intervention Area	Markets to be Influenced	Anticipated Results if Markets Start to Work Better	Contribution to WEE Objectives (if applicable)	Potential Partners
Safe and socially responsible working conditions	Implementation of stricter policies, such as those addressing child labour, environmental degradation, fair hiring practices and anti-harassment policies, and addressing ESG (environment, social and governance) issues will lead to entities in the leather industry operating in a manner that is more eco-friendly and provides safe and socially responsible working conditions (including adequate compensation and transportation) for its labour, including women.	Better environment and safer working conditions >> more export orders and higher employee satisfaction >> higher productivity >> more sales >> more employment for men and women >> higher incomes	Women are more likely to access training and employment opportunities (Domain 4), and thus earn higher incomes (Domain 1). They may gain access to other workplace amenities (Domain 5). They may also have more options available for lateral or upward mobility (Domain 2). Entities may also provide support in making their productive or parental workloads manageable (Domain 3).	Component suppliers, leather goods manufacturers, associations, government institutions
<b>Cross-Cutting</b>				
Poverty	Cross-cutting – in principle same as above	Increased production and better margins >> more jobs >> higher net incomes >> more money to invest in household needs	Same as above	Same as above
Gender	The growth in the sector will create more jobs and higher wages for women in semi-skilled factory floor activities. More opportunities will be provided to train women in a number of areas, such as design, marketing, finishing and quality control. This will result in enhanced retention rates and also open doors for upward and lateral mobility.	Manufacturing of value-added leather goods increases >> greater enterprise income >> increased production >> increased employment, and increased wages for women	Same as above	Same as above
Disability	Cross-cutting – in principle same as above	Opportunities identified on a case-by-case basis in areas where additional employment is created	Same as above	Same as above

## Relevance for Pro-Poor Growth

MDF seeks to mitigate the above-mentioned constraints by designing and implementing commercially sustainable interventions with business partners to generate employment for poor men and women and increase incomes.

Increasing the conversion of finished leather into leather goods will result in the employment of significant numbers of fabricators (male and female) to produce leather shoes, garments, gloves and other retail ready items. These fabricators will be largely employed from lower socio-economic groups in urban areas.

Pro-poor results are defined, and will be measured, as follows:

- Additional employment opportunities for men and women in the businesses around tanneries, leather goods manufacturers, the ancillary industry, service providers, retailers, wholesalers, transporters, etc.
- Income and employment opportunities for men and women will be created in more remote regions and lower socio-economic groups in urban areas in Pakistan.
- Having higher incomes results in an investment in household well-being, as well as higher rates of re-investment.

MDF will conduct in-depth research on poverty in Pakistan to identify specific causes and pathways out of poverty, the outcomes of which will be incorporated into the sector growth strategy described above.

# Relevance for Cross-Cutting Themes

## Contribution to Women's Economic Empowerment (WEE)

MDF analyses Women's Economic Empowerment following the five domains outlined below:

### Overall objective

1. Economic Advancement

### Improved access

2. Decision-making authority and influence in different spheres, including household finances and trade relations
3. Manageable workloads

### Stronger agency

4. Access to opportunities and life chances, such as skills development or job vacancies
5. Access to assets, services and necessary supports to advance economically

These domains inform the areas to be assessed during sector analysis, results measurement visits, and also assist in the design of current and future partnerships. In addition, MDF is also conducting an in-depth household level analysis of poverty and gender dynamics for urban areas, in order to strengthen and improve the understanding of the leather sector. The findings from these studies are incorporated into the sector strategy and influence the design of partnerships.

In the leather sector, some women are mainly engaged in roles, such as stitching, because they have better focus, concentration and attention to detail. However, management challenges impact on the ability to increase the number of women engaged in the sectors. Women usually require segregated workplaces and transportation services among other considerations, such as maternity leave. It is preferable to have women supervisors, or aged male supervisors for women-only production floors. However, female supervisors are often difficult to find owing to low retention rates and limited opportunities for upward mobility. Training institutes offer limited courses for women, and enrollment needs to be sufficient in number for the course to take place, as women do not attend mixed classes.

MDF intends to work around these constraints by supporting finished leather goods manufacturers to provide a more conducive environment for women through: suitable working conditions, such as segregated facilities, and compensation packages; transportation services; day care centres; flexible working hours; maternity leave; and other return-to-work schemes aimed at improving retention. MDF will also explore working with service providers, such as transportation companies or day-care centres in leather hubs, to provide dedicated services to women in the industry. MDF will support training institutions and in-house skills development to offer women more diversified skills (including stitching, designing, quality control, etc.), and provide more career pathways.

The household level analysis of poverty and gender dynamics in urban areas will investigate control over household resources, how the benefits of more disposable household income are distributed, and which jobs are more accessible or can be made more accessible to women. The findings of the study will deepen the understanding of the leather sector, along with the challenges and potential opportunities that exist.

MDF will collect and analyse gender-disaggregated quantitative data and qualitative information on its effective outreach to target beneficiaries, as well as the additional income and employment opportunities generated through its interventions.

## **Socially Responsible Business**

MDF will, wherever possible, promote socially responsible business practices, including the employment of people living with a disability. While working in the leather sector, extra care will be taken to ensure safe working conditions, environmentally friendly business operations, the absence of child labour and adequate compensation for women. MDF will assist the leather goods sector to identify and select compliant suppliers of leather and other product components.