

Leather Footwear Industry in Dhaka: A Case Study

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I. Introduction

Leather processing is an old manufacturing sub-sector in Bangladesh with a long heritage of over six decades. Availability of indigenous raw material (hides and skins) facilitated the setting up of the industry in early 1940s in the then East Bengal. During Pakistan period (1947-1971), the industry was dominated by non-Bengali migrants from India, who had the knowledge and the know-how of leather processing industry. At that time, leather processing was limited to the production of wet blue leather (semi-processed tanned leather) and the non-Bengali traders exported a large part of the produce to West Pakistan for further processing and production of leather goods. A few small tanning units belonged to Bengali entrepreneurs who processed leather mainly for the domestic market.

After the independence of Bangladesh, the government took over the tannery industry abandoned by the departing non-Bengali entrepreneurs but had limited success in operating them under the public sector. Export of processed leather consisted almost entirely of wet blue leather till 1980-81. After 1981, a number of policy support measures aimed at raising the level of value addition in the industry provided incentive for new private investment in leather industry. The ban on export of wet blue leather in June 1990 led to the setting up of modern leather tanning units for the production of crust leather (tanned leather after further processing of wet blue leather) and finished leather and this was followed by new investment in leather goods industry, particularly leather footwear.

However, till now leather industry occupies only a modest position in Bangladesh economy way below its true potential. Thus, in 2001-02, value addition in leather enterprises with 10 or more workers amounted to Tk. 8,737 million (\$152 million), which was about 3 percent of manufacturing value added in that size group of industries. Total

employment in leather enterprises with 10 or more workers was 27,686 or about 1 per cent of manufacturing employment in that size group. In 2007-08, export of leather and leather products amounted to \$463 million, which was around 3.3 percent of total export earnings in that year.

There are three broad components of the leather industry (i) Leather tanning (BSIC Code 1911), (ii) Leather footwear (BSIC Code 1921) and (iii) Other leather products such as handbags, carry bags, wallets, cases etc (BSIC Code 1912). In 2001-02, leather footwear contributed 66 percent of total value addition in leather industry (with 10 or more workers) followed by leather tanning (31 percent), and other leather products (3 per cent). Leather footwear accounted for 28% of export earnings from leather and leather products in 2007-08, while the share of leather and other leather products were 68% and 4% respectively. Thus notwithstanding its small size, leather industry in Bangladesh seems to have undergone significant transformation during the past two decades from a low value addition tanning activity to a producer of leather footwear and leather goods along with high value added crust and finished leather.

II. Locational Concentration

Historically, the tannery industry got concentrated in the Hazaribagh area of Dhaka city where nearly 90% of all tanneries are located. This concentration occurred in an unplanned manner posing grave threat to the environment. Hence, the government has taken a move to shift the industry to a leather estate at Savar outside the city.

There is also locational concentration of leather footwear industry in Bangladesh. Nearly 90% of all leather footwear making units is located in and around Dhaka city with some leather footwear making units existing in Chittagong and Khulna city and in Bhairab of Kishoreganj district. Within Dhaka city, there is a concentration of small leather footwear making units (having 10-49 workers) in two areas known as Siddique Bazaar and Bongshal where nearly half of these small units are located. Others areas of concentration of small and medium leather footwear making units in and around Dhaka city include

Lalbag, Nazirabazar, Sitpatli, Bangladuar, Alu Bazar, Dakkhin Moishundi, Pagla and Nawabpur.

III. Growth of Leather Footwear Industry

Between 1991-92 and 2001-02, value addition in leather and leather goods industry having 10 or more workers increased at an annual compound rate of 8.5%. During the same period, value addition in leather footwear industry in the same size group increased at an annual rate of 15.4% raising the share of leather footwear in leather and leather goods output from 35.7% in 1991-92 to 66% in 2001-02 (Table 1). In fact, leather footwear gained in importance in the overall manufacturing sector of Bangladesh during this period raising its share in manufacturing value added (10 or more workers) from 1.4% in 1991-92 to 2% in 2001-02.

Growth of leather footwear industry also contributed to growth of manufacturing employment. Thus, in the 10 or more workers size group employment in leather footwear experienced a yearly compound growth of nearly 6.6% during 1991-92 to 2001-02.

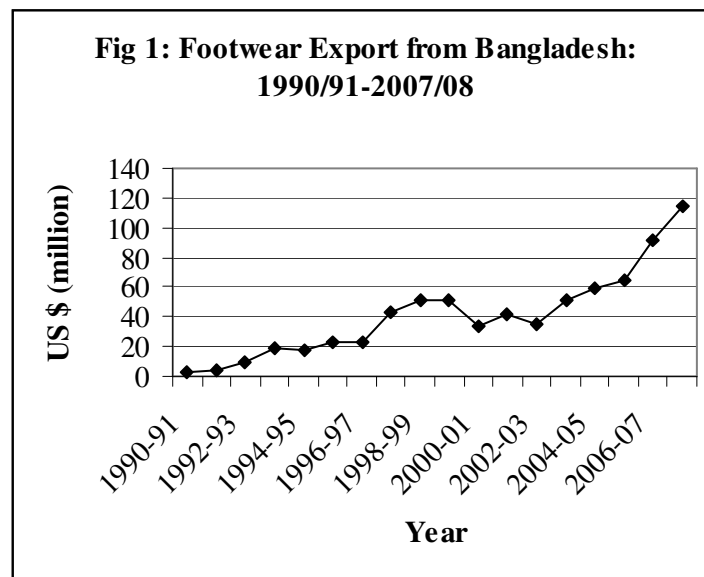
Table 1
Growth in Leather Footwear Industry 1991/92-2001/02

(Enterprises with 10 or more workers)

Description	1991-92	2001-02	Yearly growth (%)
Number of establishment	77	35	Negative
Number of persons engaged	5302	10005	6.6
Average employment size	69	286	15.3
Value added (Million Tk. in 1995-96 price)	1124	4712	15.4
Fixed assets (Million Tk. In 1995-96 price)	824	1897	8.7
Value added per worker (Thousand Tk. In 1995-96 price)	212	471	8.3
Fixed assets per worker (Thousand Tk. In 1995-96 price)	155	190	2.1
Share in value added in leather industry (%)	35.7	66.0	6.3
Share in manufacturing value added (%)	1.4	2.0	3.6

Source: Census of Manufacturing Industries 1991-92 & 2001-02

Export of leather and leather products increased from about \$137 million in 1990-91 to \$415 million in 2007-08 showing a trend growth rate of 11.6%. Before 1990-91, there was no export of leather footwear and in 1990-91 export of leather footwear stood at only \$2.8 million. During 1990-91 to 2007-08, leather footwear export increased at a trend rate of 16.7% (Fig 1) and stood at nearly \$115 million in 2007-08 raising the share of leather footwear in total export of leather and leather goods from a paltry 2% in 1990-91 to 28% in 2007-08.



IV. Size Distribution

Table 2 presents evidence on size distribution of leather footwear industry in 1991-92 and 2001-02 based on CMI. As is evident from the Table, in 1991-92 there were a large number of small enterprises having 10-19 workers. These were mostly handmade footwear manufacturers who collected necessary raw materials from the local wholesale market at Bongshal and produced economy-quality footwear for domestic market. They used sewing machine only for sewing and the rest was done manually. Beyond these handmade footwear producers there were medium and larger industrial producers of leather footwear who were relatively few in number but had a more mechanized

production process and produced better quality footwear for the domestic market. The largest of these was the multinational Bata Shoe Co. having more than 1000 workers and produced both finished leather and leather footwear.

By 2001-02, the structure of the leather footwear industry in Bangladesh changed significantly. Access to export market led to establishment of larger enterprises. At the same time, medium sized enterprises using mechanized production process and catering to domestic market also increased in number some of which graduated from the handmade footwear producer category. As a result, the period 1991/92 to 2001/02 marked significant increase in the average size of employment in the footwear industry and the increased mechanization also contributed to higher level of labor productivity (Table 2).

Table 2
Size Distribution of Footwear Enterprises with 10 or more workers

Year	Number of workers						
	10-19	20-49	50-99	100-199	200-499	500-999	1000 or more
1991-92	57	8	9	1	-	1	1
2001-02	-	-	25	5	-	-	5

Source: CMI 1991-92, 2001-02

CMI data is not available beyond 2001-02 and seems to suffer from gross under coverage particularly of the smaller enterprises. Our field survey suggests that there has been a resurgence of small footwear making enterprises with 10-49 workers, which now constitutes a significant part of the leather footwear industry in Bangladesh. Information collected from the field in the course of the case studies suggests that there are nearly 2500-3000 footwear making units in Dhaka city. Nearly half of these mainly produce leather footwear. Except for a handful of large producers, bulk of these units has less than 50 workers. Of these small units, approximately 10% have less than 10 workers, 70% have 10-24 workers and 20% have 25-49 workers.

But unlike early 1990s, these enterprises now produce better quality footwear taking advantage of the availability good quality imported inputs used in shoe making.

V. Case Study Findings

Size and Age of the Case Study Enterprises

Of the 15 case study enterprises 4 had less than 10 workers, 7 had between 10 and 24 workers and the rest 4 had 25-49 workers (Table 3). All the enterprises were set up after 1990. The incidence of recently set up enterprises are more. Eight enterprises were set up after 2000, 4 were set up between 1996 and 2000 while the rest 3 were set up between 1990 and 1995. One observes a positive relationship between size of the unit and its age. Larger enterprises seem to be older while smaller units are of more recent origin (Table 3).

Table 3: Size Distribution of the Case Study Units

No. of workers	No. of units	Average age of the enterprise
Less than 10 workers	4	3.75
10-25 workers	7	9.98
25-49 workers	4	10.25

Source: Case study

Table 4: Growth in Enterprise Size

No. of workers	Average number of workers at the time of establishment
Less than 10 workers	4.25
10-25 workers	5.00
25-49 workers	7.25

Information relating to employment at the time of establishment shows that while there is some positive correlation between the current size of the unit and its size at the time of establishment, almost all the enterprises started with less than 10 workers and grew over time.

Capital Intensity in Leather Footwear making

The case study enterprises has modest fixed capital requirement and mainly uses hand tools and some sewing machine. Value of fixed assets excluding land and building per worker has been estimated to be less than \$50 and varies marginally between different sizes of enterprises (Table 5).

Table 5: Fixed Assets Requirement

No. of workers	Fixed assets per worker excluding land and building(Tk)
Less than 10 workers	3201
10-25 workers	3272
25-49 workers	3464

Source: Case Study

Entrepreneurial Background

All the case study enterprises are sole proprietorship enterprises, and the entrepreneurs are Muslim males with prior experience in this industry, the average length of experience being nearly 8 years. All respondents mentioned prior experience and small capital requirement as the main motivational factor behind starting the enterprise. The educational background of the entrepreneurs is rather low with average years of schooling being 4.3 years, although the entrepreneurs of the larger enterprises have somewhat longer schooling records (Table 6).

The informal nature of the case study enterprise is reflected in the fact that none of the “less than 10 workers” enterprises were registered with any public authority. Only one enterprise in the 10-25 workers size group was found to be registered with the City Corporation. The incidence was somewhat higher in the case of larger enterprises having more than 25 workers (Table 7).

Table 6: Years of Schooling of the Entrepreneurs

No. of workers	Years of schooling
Less than 10 workers	1.0
10-25 workers	3.3
25-49 workers	8.8

Source: Case Study

Table 7: Registration Status of the Case Study units

Registered with	Less than 10 workers	10-25 workers	25-49 workers	All
Inspector of factories	0	0	0	0
City corporation	0	1	3	4
All	0	1	3	4

Production and Marketing

The respondents mentioned most of their main raw materials such as finished leather, lining leather, artificial sole, in-sole leather and other accessories to be locally procured (Table 8). Only chemicals were mentioned to be mainly of import origin. However, further investigations revealed that except finished leather, all other items have high import contents. Taking advantage of the liberalized trade regime, small producers import a significant part of the ingredients of these inputs and manufacture these footwear-inputs locally. In fact, as reported by the case study entrepreneurs, local availability of these footwear-inputs based on imported ingredients has been a major contributing factor to the growth of small footwear making enterprises in Bangladesh.

An interesting feature of small scale leather footwear making in Bangladesh is the dominance of piece-rated workers. As shown in Table 9, the smaller enterprises with less than 10 workers are fully dependent on piece-rated workers. The incidence of time rated worker is seen to increase with the size of the enterprise.

Table 9: Terms of Employment of Hired Workers

Number of worker	Proportion of time-rated workers (%)	Proportion of piece-rated workers (%)
Less than 10 workers	0.0	100.0
10-25 workers	5.1	94.9
25-49 workers	16.8	83.2

Source: Case study

In the case of the case study enterprises, all productions were for local sale and there was no incidence of export. Main source of purchase order was Dhaka based wholesalers and retailers. Orders were placed based on designs supplied by the producer or the buyer. Six out of the 15 case study units reported part of their production based on sub-contracting. Incidence of advance payment by the buyer was very low. On delivery of output, 80% of the product value is paid out. The rest 20% is cleared after agreed time during which the producer remains responsible for replacing any defective product.

Perception regarding constraint to growth

14 out of the 15 respondents mentioned working capital shortage as the main constraint to growth of the enterprise. Space rental was mentioned by one respondent as the main factor restricting growth. It is possible that high cost of space rental was also perceived by some of the other respondents as a problem of working capital shortage. Five out of the 15 respondents mentioned lack of skilled workers as a problem constraining growth.