

Recent Development and Emerging Issues In India's Leather & Footwear Sector

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Abstract

This paper is designed to analyse the recent development and emerging issues in India's leather & footwear sector. The leather and footwear industry holds prominent place in the Indian economy given its large social and economic contribution. It is an employment intensive sector, providing job to 2.5 million people, mostly from the weaker sections of the society. India is the second largest producer of footwear and leather garments in the world.

Although there are positive sentiments across the leather & footwear sector, some issues are also there. The leather manufacturers, including footwear as it is the largest sub section of leather sector, have been facing emerging issues such as lack of skilled and semi-skilled labour, lack of working capital finance, increased raw materials cost etc.

India is recognised as one of the fastest growing countries in the world and in the world economy trade always plays an important role for achieving the target of higher rate of growth. In this light it is important to analyse the performance of any country in world market, particularly for a developing country like India.

Modern leather production requires a steady supply of raw materials. This explains the development of the tanning sector notably in those country and regions well-endowed with an abundant supply of raw hides or skins. The production of raw hides and skins depend on animal population and slaughter rate and is related mainly to meat consumption that is why the tanning industry does not respond directly to the laws.

Keyword: Recent development, Challenges, Employability, Training, Emerging issue.

Introduction

The Leather Industry holds a prominent place in the Indian economy. This sector is known for its consistency in high export earnings and it is among the top ten foreign exchange earners for the country.

With an annual turnover of over US\$ 12.50 billion, the export of leather and leather products increased manifold over the past decades and touched US\$ 6.5 billion during 2014-15, recording a cumulative annual growth rate of about 13.10% (5 years). The Leather industry is bestowed with an affluence of raw materials as India is endowed with 21% of world cattle & buffalo and 11% of world goat & sheep population. Added to this are the strengths of skilled manpower, innovative technology, increasing industry compliance to international environmental standards, and the dedicated support of the allied industries.¹

The leather industry is an employment intensive sector, providing job to about 2.5 million people, mostly from the weaker sections of the society. Women employment is predominant in leather products sector with about 30% share.

India is the Second largest footwear producer after China. Annual Production 2200 million pairs. Huge domestic retail market 1950 million pairs (95%) are sold in domestic market. Footwear export accounts for 45% share in India's total leather & leather products export. The Footwear product mix Gents 55%, Ladies 35% and Children 10%.

"Development that meets the needs of the present without compromising the ability of future generations to meet their own needs."²

A major proportion (around 80%) of the leather and footwear industry is unorganized and has a limited scope of mobilizing funds through private equity and bank loans.

1. Although India has abundant supply raw material for leather and leather products, timely availability of raw materials remains a constraint.
2. High labor charges for a skilled workforce.
3. Lack of strong presence in the global fashion market.
4. Unawareness of international quality standards by many players.
5. Lack of product innovation: most of the units work on sub-contract basis where all the design and other specification of the product are provided by the buyer.



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The most meaningful engine of change, powerful enough to confront corporate power, may be not so much environmental quality, as the economic development and growth associated with the effort to improve it. ³

The environment does not exist as a sphere separate from human actions, ambitions, and needs and attempts to defend it in isolation from human concerns have given the very word “environment” a connotation of naivety in some political circles. The word “development” has also been narrowed by some into a very limited focus, along the lines of “**what poor nations should do to become richer,**” and thus again is automatically dismissed by many in the international arena as being a concern of specialists, of those involved in questions of “development assistance.” But the “environment” is where we live; and “development” is what we all do in attempting to improve our lot within that abode.

Objective of the Study

The main objectives of paper are

1. To understand the emerging issues of recent development in leather & footwear sector
2. To suggest strategies to improve employability skills

Review of Literature

According to R.R.Prasad (1986) analyzed the leather business as a prime task of the people belonging to the scheduled castes. The introduction of the book includes the objective of study searching for the traditional craft and the leather worker relationship.

According to Sinha Saurabhand, Sinha Sanjay (1991) brought forth the step of leather industry to boost the exports with coordination with recent policy measure introduced for the industrial exports.

According to **C.K. Varshney (1993)** in his book “Environmental Challenges” recommended that with increasing population and growing consumerism, the demand for environmental resources outstrips the carrying capacity of the environment.

According to **Darshini Mahadevia (2001)** in her paper entitled “Sustainable urban development in India: an inclusive perspective” said that the mainstream debate on urban development looks either at urban development or sustainable cities and tends to miss out on people-centered approaches to development.

According to Das Samantak, MukhopadhyayDripto (2001) made an attempt to understand the various characteristics of Indian leather industry in the light of its production, share to national income, employment generation, and export orientation.

According to Y.Srinivas (2005) MSMEs play a very significant role in the economy in terms of balanced and sustainable growth, employment generation, development of entrepreneurial skills and contribution to export earnings.

According to Gupta Shivam, Gupta Rocky,TamraRonak, (2007) carried work focusing Kanpur tanneries, environmental impact of the industry along with many challenges faced by it like Technical barriers, nature of Small Enterprises, economic barriers, social barriers, social hindrances etc.

According to Vaithegi, (2007) investigated the problems of disintegration of production process evidently seen today in all the labour intensive industries especially in footwear and leather.

According to Dr. ThamaraiKannan and C. Sengottuvel, (2012) states the significance of leather industry as one of the major industries of India having potential for further growth to earn maximum foreign exchange in coming years.

Research Methodology

Data are mostly collected through social science include censuses, government departments, organizational records desk research of online resources, research papers, conference documents, and other publications. Data from Council from leather export has been used. Annual report on MSMEs, Annual report of the ministry of commerce and industry, various annual reports of State Financial Corporation, and various financial institutions have been used.

The data have been compiled from three types of sources:

- Published documents and reports
- The World Wide Web
- Statistical agencies

Future outlook of leather & footwear industry

The Government of India had identified the Leather & Footwear Sector as a Focus Sector in the Indian Foreign Trade Policy in view of its immense potential for export

growth prospects and employment generation. Accordingly, the Government is also implementing various Special Focus Initiatives under the Foreign Trade Policy for the growth of the leather sector. With the implementation of various industrial developmental programmes as well as export promotional activities; and keeping in view the past performance, and industry's inherent strengths of skilled manpower, innovative technology, increasing industry compliance to international environmental standards, and dedicated support of the allied industries, the Indian leather industry aims to augment the production, thereby enhance export, and resultantly create additional employment opportunities.⁴

Major Production Centers for Leather and Leather Products in India:

The following given below states are the major production center of leather and leather product in India.

Tamil Nadu, West Bengal, Uttar Pradesh, Maharashtra, Punjab, Karnataka, Andhra Pradesh Haryana, Delhi, Madhya Pradesh, Kerala.

India's Export of Leather and Leather Products for Five Year:⁵

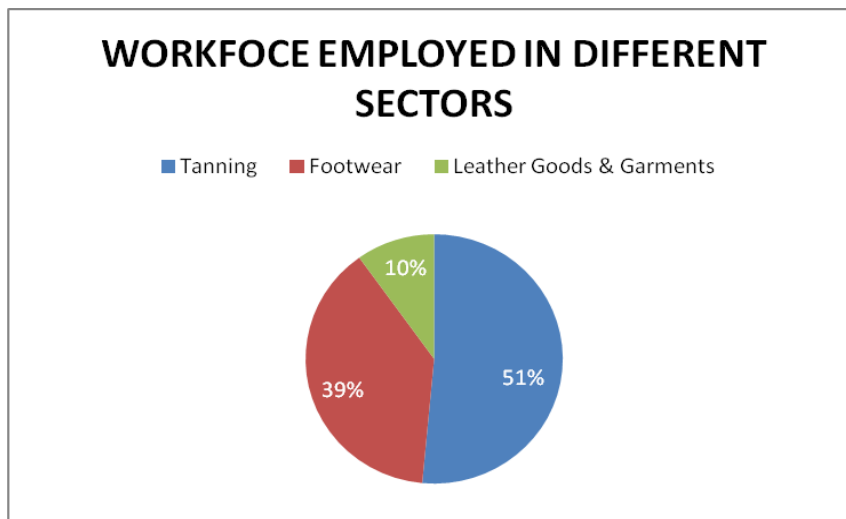
(Value in Million \$)	2010-11	2011-12	2012-13	2013-14	2014-15
Finished Leather	841.13	1024.69	1093.73	1284.57	1329.05
Footwear	1758.67	2079.14	2066.91	2557.66	2945.15
Leather Garments	425.04	572.45	563.54	596.15	604.25
Leather Goods	855.78	1089.71	1180.82	1353.91	1453.26
Saddlery & Harness	87.92	107.54	110.41	145.54	162.70
Total	3968.54	4873.53	5015.41	5937.97	6494.41
% Growth		22.80%	2.91%	18.39%	9.37%

Highlights of Leather Product Segments:

- 1. Tanning Sector:** Annual production 2 billion Sq.ft. Accounts for 10% of world leather requirement. Indian colors continuously being selected at the MODEUROPE Congress.
- 2. Footwear Sector:** Second largest footwear producer after China. Annual Production 2065 million pairs. Huge domestic retail market 1950 million pairs (95%) are sold in domestic market. Footwear export accounts for 42.83% share in India's total leather & leather products export. The Footwear product mix Gents 54%, Ladies 37% and Children 9%.
- 3. Leather Garments Sector:** A second largest producer with annual production capacity of 16 million pieces. Third largest global exporter. Accounts for 10.09% share of India's total leather export.
- 4. Leather Goods & Accessories Sector including Saddlery & Harness:** Fifth largest global exporter. Annual production capacity – 63 million pieces of leather articles, 52 million pairs of Industrial gloves & 12.50 million pieces of Harness & Saddlery items. Accounts for 25.34% share of India's total export.

Workforce Employment

Indian leather and footwear industry plays a prominence role giving employment to 2.5 millions of people. 30% among them are the women employees. With 55% of the workforce below 35 years of age, Indian leather industry is one of the youngest workforces.



Emerging Issue of Leather & Footwear Industry:

1. **The Industry's Global Perspective:** The leather and its related downstream industries can claim to be the world's largest industrial sector based upon a by-product. In the case of leather, the raw material is a byproduct of the meat industry. Hides and skins and their downstream products are vital earners of foreign exchange and they compare very well with the other agricultural commodities and, in fact, with any internationally traded commodities. This industry helps convertible a putrescible material into a stable and marketable product.
2. **Hides and Skins Production and Trade:**
 1. **Dependence on the market for meat:** Availability of hides and skins is governed mainly by the demand for red meat. Governing feature of the leather industry is in the elastic nature of its raw material supply. The bulk of bovine hides and ovine and caprine skins in industrialized countries are marketed to the leather industry and thus the number of heads slaughtered is roughly equivalent to the number of hides and skins available. A significant part of hides and skins is lost to tanners mainly in the least developed countries in Africa owing to lack of marketing infrastructure, monopolies of various kinds or diversion into other uses such as food, tents, ropes, etc. Bovine hide is by far the most important raw material for the leather industry. Off-take ratio (i.e. weight per hide and skin) is very high in developed countries as compared to the developing countries which contribute about 70% of world bovine hide.
 2. **Change in global pattern of demand for hides and skins:** The leather industry has expanded substantially in the developing countries. A consequence of production expansion in some developing countries is that tannery input demands have outstripped locally available supplies and imports from the developed countries have become essential.

Challenges of Indian leather & footwear sector:

1. **Technical Barriers:** By nature, tanners are very conservative. This is not simply obstinacy against change; it is because the quality and character of leather are prone to change when the parameters of processing are altered. Changes in the length of processes, process temperatures, float volumes, uptake of chemicals etc. influence the ultimate character of the leather. Leather being produced from a complex, non-uniform natural protein material still requires considerable craft in its manufacture. The adoption of low waste technology often requires a radical alteration of most tannery processes while, at the same time, ensuring that the ultimate product retains its marketable properties. Therefore if a tanner is producing consistent quality of leather which satisfies his customers using a process which may be wasteful in water, energy and chemical utilization, he may resist altering his operations to comply with environmental demands.
2. **Small and Medium Enterprises:** In most developing countries tanning operations is a family business, carried out in small to medium scale semi-mechanized units, very frequently grouped tightly in clusters which used to be outside residential areas. Tanners in such units have no formal

education and have little or no understanding of the complexities of the leather processing, their skills acquired from their elders with hardly any perception of environmental protection Low waste technologies, generally speaking, require better-skilled personnel and closer technical control than conventional processing. Thus, lack of properly trained staff at different levels remains one of the crucial constraints.

3. **Economic Barriers:**In developing countries, the leather industry suffers from economic constraints. They suffer the often inordinately high cost of capital or inflation rates. The amount of capital tied up in work-in-progress has increased along with the necessity to keep higher inventories of chemicals, machinery spares, etc. Because of problems with poor infrastructure in many developing countries, the tanneries have always kept higher stocks of chemicals than their counterparts in developed countries, against the contingency of delays in delivery from ports.
4. **Inadequate Legislation and Lack of Monitoring Facilities:**Pollutant discharge standards in most developing countries are by nature rigid and have a disregard for specific site conditions. Instead of a gradual approach as called for which would phase installation of treatment facilities (for example the physicochemical first followed by the biological treatment and appropriate sludge handling) a tanner is under pressure to put up a complete treatment system and meet all discharge limitations at once which is beyond his financial and technical means. However, very few tanners have the necessary process and effluent treatment control facilities and legislation enforcement agencies usually lack the skilled personnel to monitor the performance of the installed treatment plants.
5. **Social Barriers:**Governments often feel inhibited from dealing with problems related to modernizing of the tanneries because of the social and even political upheaval that would occur. The problem is further exacerbated where tanners are traditionally regarded as socially inferior because of the nature of their work. These groups, because of traditional discrimination, have amassed considerable political privileges. Consequently, there are difficulties in altering the structure of artisan industry.
6. **Technical Assistance Laboratories:** Most of the major leather and footwear producing developed and developing countries have research and development laboratories and technological teaching facilities. It is usual that either the R & D laboratories or the teaching establishments, or both, have pilot tanneries in which technological developments are taken a stage further towards commercial leather production by industry.
7. **Environmental issues:**The leather industry is considered to be a major pollutant, especially during the last stages of production in tanning. As the leather industry also releases its waste and chemicals into water bodies it is known to badly affect groundwater. Due to its nature, importing countries have set global standards, besides banning usage of many chemicals.
8. **Unavailability of raw materials:** The unavailability of raw materials is a serious problem for both the developed countries and the developing countries like India. Other components like fittings, adhesives and much more are also less accessible in preferred scale.
9. **Chinese competition:**China dominates the global leather industry due to its low production costs.
10. **Lack of technology:** In India leather is produced in the old fashioned way through tanning that takes a lot of time to process rawhide skin into leather. Further, the activities of designing, cutting, and stitching are done manually, which affects the quality and unit value realization of products. Evidently, the industry lacks in terms of the level of modernization and technology readiness.
11. **Inadequate investments:** The leather & footwear industry needs to make high capital investments for proper production processes and infrastructure.
12. **The lack of skilled labor:** The industry is affected by the lack of skilled labor, and low level of labor productivity, as the employees are not exposed to any formal training.
13. **Underutilization of capacity:** Due to deficient raw materials, shortage of finance, labor problems, and regular power failures there is underutilization of capacity in the industry.

Initiatives taken by the Government:

1. The National Manufacturing Policy of India had identified the Leather Sector as a Focus Sector in the Indian Foreign Trade Policy. Government is also implementing various Special Focus Initiatives under the Foreign Trade Policy for the growth of leather sector.
2. 100% Foreign direct investment (FDI) is permitted through automatic route.
3. No Central Excise duty and import duty on raw hides and skins, semi-processed leathers like wet blue, crust leather or finished leather.
4. No Central Excise Duty on footwear with Retail Price upto USD 7.69. Concessional Excise duty of 6% for all footwear with Retail Price above USD 7.69 and USD 15.38.
5. Excise duty on footwear with leather uppers and having retail price more than USD 15.38 reduced from 12%to 6%.
6. Capital goods (machinery) required by the industry can be imported without import duty under the Export Promotion Capital Goods (EPCG) Scheme of Foreign Trade Policy, subject to meeting the export obligation of six times the duty saved in six years.
7. 3% reduction in interest on Rupee Export Credit to MSME units and all footwear units under Interest Equalisation Scheme for 5 years from 1st April 2015.
8. Imported leather too is now available to the industry at competitive prices.
9. Technology Mission scheme planned for tanning sector to utilize 100% tanning capacity of existing tanneries, to upgrade Common Effluent Treatment Plants (CETPs), systematic and large collection of hides and skins etc.
10. The Human Resources Development sub-scheme under the Indian Leather Development Programme (ILDPP) implemented by the Department of Industrial Policy and Promotion (DIPP) is providing skill development training to the unemployed for placement in the leather industry while upgrading skills of the existing workforce at the shop floor level and imparting training to trainers.
11. Under the IDLS sub-scheme of ILDP, 30% grant is provided on the cost of plant and machinery for Micro and Small units and 20% for other units, with a ceiling of USD 0.307 million for each product line.
12. Under the MLC sub-scheme of ILDP, 50% grant with a ceiling of USD 19.23 million based on size is provided for the establishment of Mega Leather Clusters to boost infrastructure facility and support services for production and export.
13. Under the Leather Technology, Innovative and Environmental Issues sub-scheme of ILDP, assistance is provided for up to 50% of the project cost with a ceiling of USD 7.69 million for up gradation/installation of Common Effluent Treatment Plants (CETPs) to address environmental pollution caused by leather units.
14. Government of India conducts various training programs in the sector through Pradhanmantri Kaushal Vikas Yojna (PMKVY), Atal Incubation Centres (AIC) and other skill development programs.
15. Warehouse support by the Government⁷

Conclusion

However, due to highly unorganized nature of the industry, availability of financing facility remains a major challenge. Apart from this timely availability of raw material, the high cost of skilled human resource and lack of product innovation still remains an issue. Given the contribution is shown by the small medium enterprises in leather & footwear industry towards employment generation and foreign exchange earnings, the government should take further initiatives and develop policies which particularly focus on the growth of the small medium enterprises in leather & footwear industry.

Suggestions

1. **Government Regulations:** Government is responsible for the control of the tanneries have enough skills to do the control properly, and that they have the knowledge to teach the tanners how to achieve the standards if they are not meeting the norms at the moment of control.
2. **Effective Monitoring:** Charge each tanner for the cleaning on the basis of how much effluent the tannery emits. This would be possible by establishing a measuring unit at the end of each tanner's pipe, measuring the amount of effluent it creates before it goes into the common conveyance system. This would force the tanners to be more careful about their water consumption, and reduced water use could reduce the quantity of chemicals used. An even

better option would be to have measuring equipment that could monitor the quantity of chrome and other chemicals contained in the effluent, and that each tanner would pay according to these measures.

3. **Inter Tannery Monitoring:** A less technical alternative is to improve the environmental performance of the tanners by so-called "noisy monitoring". This means that the tanneries should monitor and report on each other. This is possible because already today the tanners are closely related and well informed about each other's activities. One would have to find a way to ensure reporting and avoid "brotherhood" tendencies between the different tanners.
4. **Eco-Labeling:** For the industry, there have already been suggestions to market vegetable tanned leather as environmentally friendly or give the leather an eco-label. This is problematic both because it is not so certain that the vegetable tanned leather is any more environmentally sound than the chrome tanned leather and anyway, there is not a demand for such "clean" leather among the customers.
5. **Financial Support:** Changes in the financial and in the insurance markets could be effective tools to improve the environmental performance of the tanning industry. If better interest rates on loans were given to tanneries with a good performance or maybe a discount on the insurance premium, tanners would strive to achieve environmental standards. Special financial schemes can be floated for small and medium scale enterprises.
6. **Qualitative boost:** Despite the economic importance of the leather & footwear industries for the economies of developing countries there is a discriminating attitude towards them because of the high pollution level. The younger generation at colleges and technical institutions do not find the tanning industry very attractive and are likely to select other industrial options.
7. **Human Resource Development:** Most of the developing countries are facing acute shortage of technically qualified personnel for the operation, monitoring and maintenance of effluent treatment plants for tannery wastes. Appropriate training and education programs are needed to cater for the needs of technical personnel at various levels (operating, supervisory, managerial and design). There is an urgent need to prepare a working paper which precisely identifies a training curriculum, type of faculty and infrastructural facilities required for this purpose.
8. **Development of Commercial Plants:** Pollution control technologies have to be techno-economically viable with attractive financial returns for adoption in the traditional leather sector. The technology package should consist of in-plant control, end of the pipe treatment and waste management components. There is a great need to set up demonstration plants for common effluent treatment, in-plant process controls and tannery waste utilization in the midst of tanneries in selected developing countries in order to enable them to see the performance of the new systems under field conditions.

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