



Enhancing Competitiveness in the Leather Industry in Tanzania

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Key Messages

- Tanzania ranks second after Ethiopia in Africa in terms of livestock population - making the country a potential hub for leather industrialization and trade.
- In recent years, exports of leather have declined despite increases in collection of hides and skins
- The trade potential of leather continues to be under-exploited because of inability to address long standing structural deficiencies in production and value upgrading.
- To enhance the leather industry competitiveness, a variety of policy actions are needed including adoption of modern technology and innovation in handling livestock, hides and skins as well in processing; scaling up of capacity building programs for value chain actors; special provisions to leather industries; and promoting an attractive business environment for leather industry investment.

Introduction

In Africa, Tanzania is the second leading country after Ethiopia in terms of livestock population with reported statistics of 27.4 million head of cattle, 18.4 million head of goats, and 7.8 million head of sheep (FAO, 2020). Livestock activities account for 7.6% of the country's GDP and about 1.7 million households rely on the sector for their wellbeing (Ministry of Livestock and Fisheries, 2019; International Trade Centre, 2018). Tanzania's large endowment of livestock and sufficient labor availability is a source of significant comparative advantage against growing demand for leather and leather products in domestic, regional and international markets.

Tanzania ranks as the 11th largest exporter of hides and skins in Sub-Saharan Africa with Asian markets her major export destination. Exports to China (including Hong Kong), Pakistan, and India accounted for 26% of total leather exports in 2018. To guide the realization of industry's potential, the government of Tanzania has enacted and revised various laws, policies and strategies

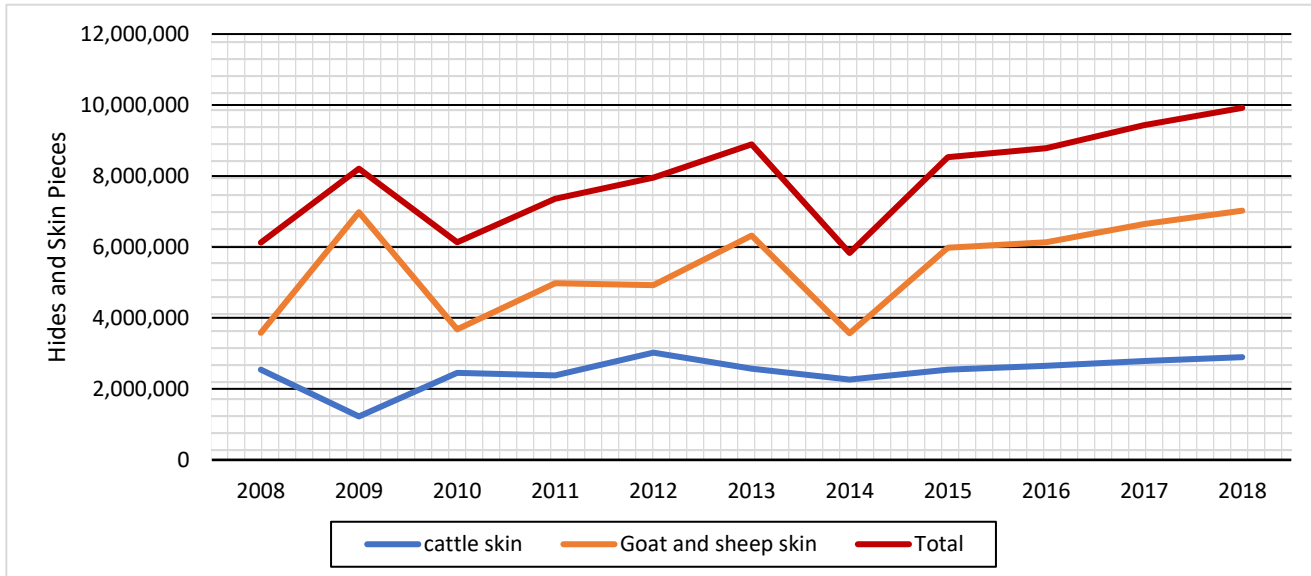
Despite efforts implemented by the government and the recognized available potential of the leather value chain, Tanzania has failed to harness fully benefits from the industry (REPOA, 2020). The country is less competitive compared to other global leather giants including Italy, Vietnam, in all competitiveness indicators except for availability and access to raw materials.

This policy brief assesses trade development and competitiveness of the leather value chain in Tanzania, focusing on market competitiveness and production capacity. It also assesses the challenges hindering the trade competitiveness of the leather industry and provides recommendations on how to boost the trade competitiveness of the leather sector given that Tanzania has a significant potential for leather development. This brief is based on fieldwork conducted March - May 2021 and a review of recent literature in the leather value chain.

Production of hides and skins

The production of hides and skins constitute a significant proportion of upstream activities in the leather value chain. Production involves interactions among the key upstream actors of livestock keepers (feedlot operators, pastoralists, agro-pastoralist, and ranchers) who are responsible for livestock production and management. At the base of these interactions are slaughtering and flaying of animals where skins and hides are obtained from farmers, slaughter slabs; slaughterhouses, abattoirs and feedlots as well as households.

Figure 1: Collection of hides and skin pieces in Tanzania



Source: Ministry of livestock and Fishery, 2018

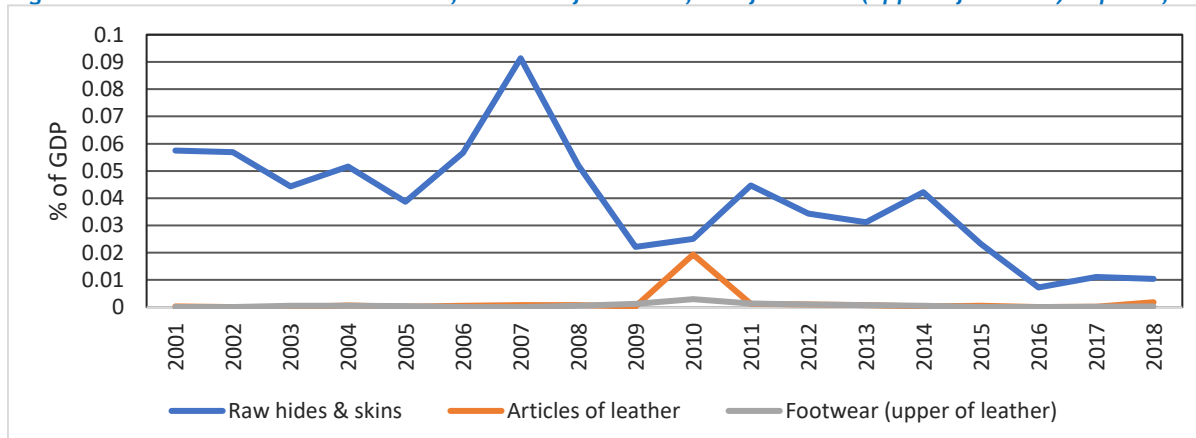
Figure 1 above shows the trend of hides and skins collected in Tanzania. It shows that in general, Tanzania has experienced an increasing production of hides and skin overtime where total hides and skins collected increased from 5.8 million pieces (2.6 million pieces of hides, 3.6 million pieces of goats/sheep skin) in 2014 to 9.9 million pieces (2.9 million pieces of hides, 7 million pieces of goats/sheep skin) in 2018 which is equivalent to an increase of 71 percent over the four-year period.

Despite a notable increase in the collection of hides and skins, effective collection is still constrained by poor animal husbandry characterized by poor veterinary care of sick animals, tick bites, identity marks, and scratches which make skins and hides less valuable. Further, effective collection of hides and skins is also limited by poor harvesting/flaying skills, poor storage and preservation facilities. The reverse trend in the export performance shown below could be explained by these constraints.

Performance of exports

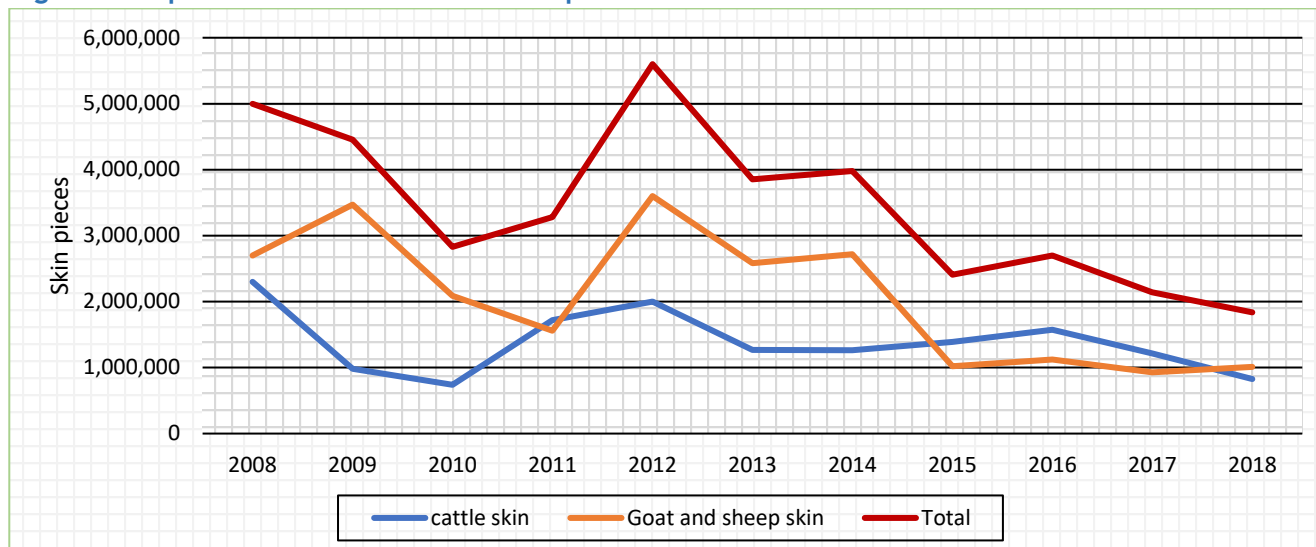
In Tanzania, leather exports comprise of raw hides and skins, articles of leathers, and footwear (upper of leather). Over the past two decades, the contribution of leather industry to Tanzania's GDP has been less than one percent (figure 2). Less export earnings are from articles of leather and footwears, which realistically they have higher market value but their export performance is disappointing. This is more likely attributed to huge export dominance on raw hides and skins. For instance, in 2018, exports of raw hides and skins; articles of leather; and finished leather (footwear) accounted for 83.8%, 14.3% and 1.8% of the total exports respectively.

Figure 2: Tanzania's raw hides & skins, articles of leathers, and footwear (upper of leather) exports, 2001-2018 (% of GDP)



Source: Calculations by the author based on International Trade Centre (ITC) and World Development Indicators (WDI) (2020).

Figure 3: Export volume of hides and skin pieces in Tanzania

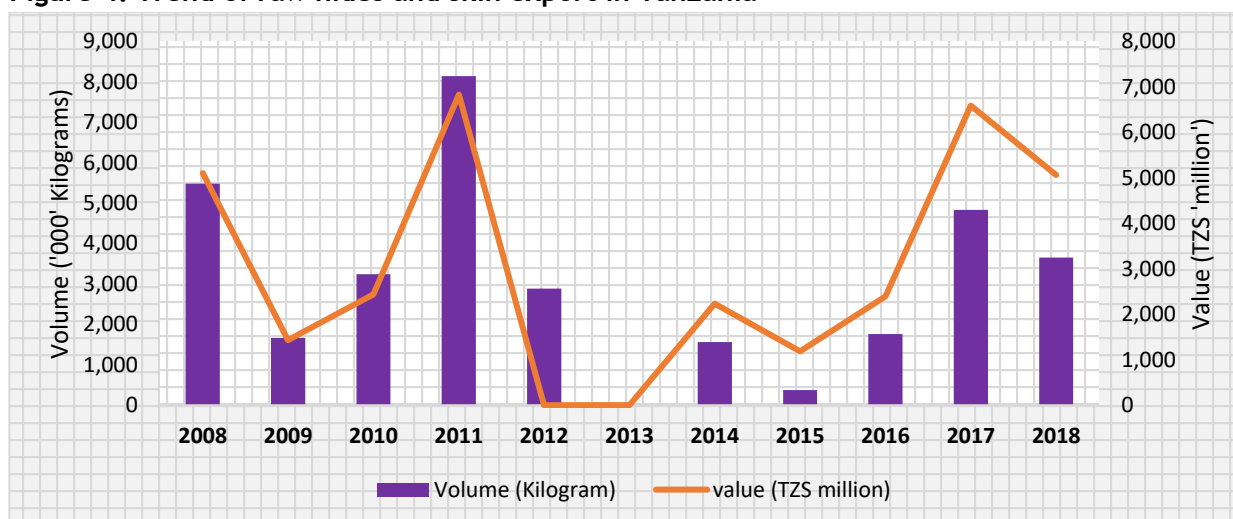


Source: Ministry of livestock and Fishery, 2018

Figure 3 illustrates the export trend of hides and skins in Tanzania. It shows that generally, the performance of hides and skins exports has been deteriorating over time. The total exports of hides and skins declined from 5.6 million pieces (2 million pieces of hides, 3.6 million pieces of goats/sheep skin) in 2012 to 1.8 million pieces (0.8 million pieces of hides, 1 million pieces of goats/sheep skin) in 2018 which is equivalent to a 68 percent decline.

The decline in exports of hides and skins, however, is more likely to be attributed by the ban of skins and hides processed using chromine and sulphide in the European market rather than using other techniques such as vegetable tanning which are environmental and safety friendly. This ban is consistent with REACH¹ regulations of the European Union (EU) which guard against risks from chemical exposure and use.

Figure 4: Trend of raw hides and skin export in Tanzania



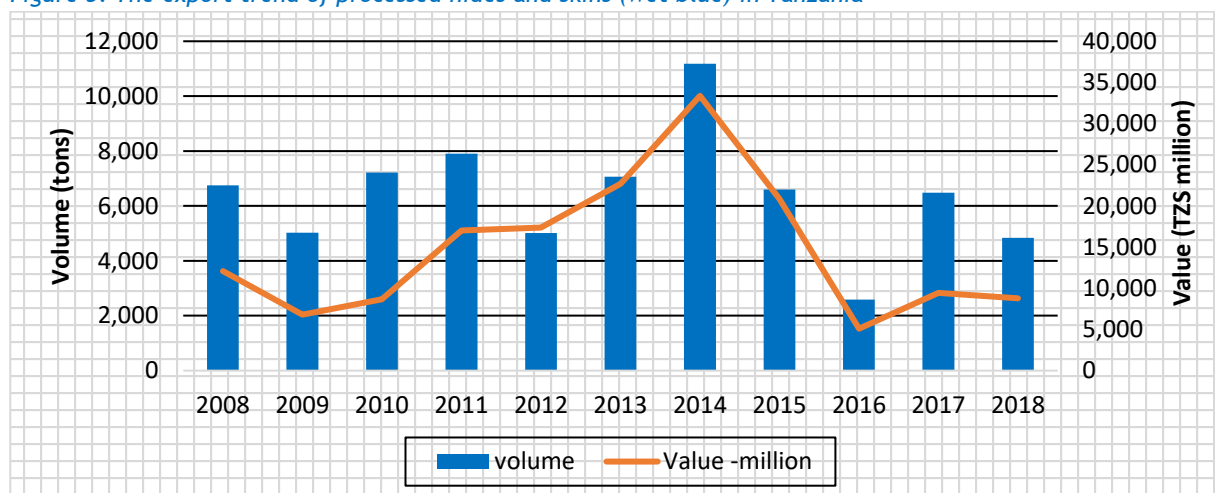
Source: TRA, 2018

Figure 4 illustrates the export volume and value of raw hides and skins over the past decade where a consistent fluctuation of volume and its value has been noted. It shows that the volume of raw hides and skins increased from 1666 tons worth 1.4 billion TZS in 2009 to 8141 tons worth 6.8 billion TZS in 2011. Notably, Tanzania experienced a very minimal export volume of 2 tons in 2013. Later, the export volume of raw hides and skins increased tremendously from 372 tons worth 1.1 billion TZS in 2015 to 4835 tons worth 6.6 billion TZS in 2017, although the peak exports of 2011 have yet to be replicated.

¹ REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) framework

Instability in the export of raw hides and skins is generally considered to be influenced by limited private and public investment in tanning and processing industries, limited investment in abattoirs, poor collection and handling of hides and skins, limited technology and innovation adoption in the leather industry, high transaction cost, high production cost, limited access to processing inputs including machines and chemicals, (URT, 2016)

Figure 5: The export trend of processed hides and skins (wet blue) in Tanzania



Source: TRA, 2018

Figure 5 illustrates the export trend of processed hides and skins (wet blue). Export volumes of wet blue have fluctuated over the past decade when the initial increases in 2009-2014 have been superseded by considerable reductions in export volume of wet blue from 11,186 tons worth 33.4 billion TZS in 2014 to 2,592 tons worth 5 billion TZS in 2016.

However, the export volume of raw hides and skins and wet blue varies slightly, and this implies value addition of hides and skins in Tanzania is still relatively low. Consistently, the supply of leather and leather products in the country is also very low. Evidentially, Tanzania produces about 1.2 million pairs of leather shoes per year which is contrary to the annual demand of 54 million pairs of shoes (URT, 2019). The leather industry in Tanzania is vulnerable to low-value addition where processed and value-added hides and skins account for 30 percent of the market demand.

Table 1: Export value of leather and leather products in 2019

	Export value (Million USD)		
	Raw hides, skins & leather	Articles of leather	Footwear, upper of leather
Tanzania	11.6	0.14	0.06
China	1614.46	33993	10719.87
Ethiopia	71.08	14.52	30.62
Kenya			

Source: ITC calculation based on the UNITS, (2020)

Table 1 above shows the export value of leather and leather products across specific countries. Tanzania has been compared with the top performers in the World and Africa and its counterpart in the East African region. The results show export earning of raw hides, skins and leather; articles of leather as well as footwear were lower in Tanzania compared to the top performers China and Ethiopia. Also, Tanzania's export earnings from raw hides, skins and leather, articles of leather, and footwears were relatively lower than that Kenya despite huge livestock population ahead of Kenya. These results imply that Tanzania has not fully tapped its leather industry potential.

Challenges facing the trade competitiveness of the leather industry in Tanzania

Limited technology and innovation adoption in the leather industry. Most of the tanneries operating in the country are using outdated technology as well as local processing machines. This hinders the productivity of leather and leather products despite the country being endowed with raw materials and labor availability that can potentially boost leather production.

Poor animal husbandry leads to production of poor quality hides and skins. Poor animal husbandry involves weak disease and parasite control, beating of livestock as well as marking of livestock with hot marks on their skins for identity. Since good animal husbandry is an initial stage in the leather value chain, failure to take it seriously will make the leather industry vulnerable to weak competition in the global market owing to its production of poor-quality hides and skins insufficient in meeting global standards. Production of poor quality of hides and skins hinders its market share in both regional and global leather market.

Limited capacity building programs to the leather value chain actors is also a constraint in the leather industry growth in Tanzania. Most of the value chain actors including livestock keepers, slaughterers, flayers and leather processors lack updated technical skills and knowledge in handling animals, slaughtering and management of hides and skins thus leading to production of poor-quality hides and skins.

Limited investment in the leather industry which slows value addition of hides and skins. Most of the hides and skins end up being wasted; and exported in raw form rather than in leather or leather products form which is a disadvantage to the economy as it obtains limited earnings and meagre foreign exchange.

Policy recommendation and conclusion

Recently, there has been growing demand for leather and leather products driven by evolving global consumer preferences. As Tanzania thrives to push the industrialization agenda, it needs to take advantage of its leather endowments and fully develop the leather industry. For Tanzania to realize the leather industry potential, it needs to implement sustainable measures and policy actions from the early stages of the leather chain including good animal husbandry practices which

involves control of livestock diseases and parasites up to the final stages of the value chain including marketing and exporting of leather and leather products. Hence, this policy brief suggests the following measures to promote a sustainable leather industry in Tanzania:

One, promotion and upgrading of technology and innovation in the management and processing of hides and skins as well as in processing. This can be effectively implemented by strengthening efforts in the use modernized skinning knives, modern abattoirs, slaughterhouses and slabs and emphasize adoption of modern slaughtering techniques as well modern processing techniques. As the country is emphasizing value addition coupled with changes in technology, upgrading of technology is inevitable.

Two, enhancing capacity building programs to leather value chain actors. These trainings need to start from the production stage including good animal husbandry practices, efficient and effective handling and collection of hides and skins, storage and preservation of hides and skins up to the final stage of the chain. These trainings will equip value chain actors with updated technical and innovative skills and knowledge on the necessary requirement needed to meet regional and global market standards and quality to stand competition.

Three, special provisions are highly needed to promote growth of leather industries. This could be done by banning export of raw hides and skins to boost value addition growth which is more likely to fetch more earnings for the citizens as well as the government. Other policy actions may include increase in export tax on semi-processed leather (wet blue) and unfinished leather (crust). This shall promote production and trade of finished leather which is advantageous in terms of securing more foreign earnings.

Four, promoting an attractive business environment for leather industry investment. The government needs to create a conducive and predictable business environment to attract both domestic and foreign investors in the leather industry by providing them with appropriate incentives such as tax holidays, land provision to investors at a lower lease rate, credit provision especially to local investors - hence this will lower cost of doing business and attract competitiveness. Given that Tanzania has a large number of livestock-associated with few leather industries, there is need for more modern leather industries in the country which can be obtained through encouragement of investment.

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