



Hides and Skins

Key Messages:

- *The hides and skins value chain has a huge potential to generate cash and employment opportunities. But it is constrained by many challenges such as inadequate public investment, lack of trained personnel, poor quality of hides and skins, limited value addition, lack of quality and modern processing machines, inadequate availability of raw materials for local factories due to exports in the raw form, high post-harvest losses and underutilization of the capacity of local factories.*
- *Effective implementation of recently developed Tanzania Leather Sector Strategy for 2016-2020 will be necessary to address the above challenges. It will be useful to monitor the performance of the strategy continuously to ensure that its implementation is on track.*
- *Private sector investment has an important role to play in the hides and skins industry. The government should create an enabling environment to encourage more private investments in leather processing industries and leather collection points/centres.*

1. Introduction

Hides and skins constitute valuable material removed from the animal carcass. Hides refer to the skin of cows and buffaloes while that of goat and sheep is called skin. Countries with large livestock populations such as Tanzania have a great opportunity to generate revenue from this resource (Mbassa *et al*, 2014). It is estimated that Tanzania has a population of 28.44 million cattle, 16.67 million goats and 5.01 million sheep, making the country among the top three countries with large number of livestock population in Africa (URT, 2017). In terms of cattle population, the country ranks third in Africa after Ethiopia and Sudan (URT, 2011b). This provides a considerable potential for the country to produce large quantities of hides and skins which can be processed to produce leather and leather products for domestic and export markets. Hides and skins is an important sub-sector to Tanzania's economy.

The sector generates income from export earnings, domestic market and it is a source of employment. Export data for 2014, published in the National Strategy for the Leather Sector, demonstrates that Tanzania is the 14th largest exporter of hides and skins in Africa overall and the 12th largest in Sub Saharan Africa (, 2016). Total hides and skins exports from Tanzania for 2014 were worth US\$21 million (Hub, 2016). Unfortunately, the opportunities associated with this value chain are not well exploited due to various constraints along the value chain. This brief highlights the current status of the industry and defines policy implications that need interventions to enhance hides and skins processing to produce leather and leather products that are competitive in the market.

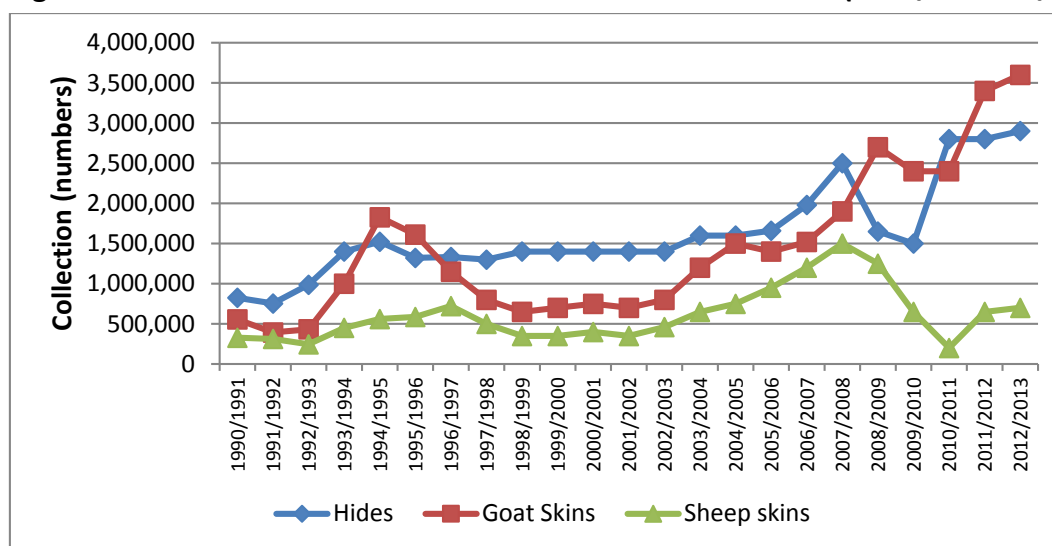


2. Production, Productivity, Structure Conduct and Performance

Production and Productivity

Production of hides and skins refers to all collections from households, slaughter slabs, slaughter houses and abattoirs. In Tanzania hides and skins sub-sector has off-take rate of 10-15% for cattle, 28% for goats and 29% for sheep (URT, 2011b). Off-take rate is usually defined as a percentage of sale or slaughter at the end or during a production cycle to the initial stock (Negassa and Jabbar, 2008). Most of the hides and skins in Tanzania are produced from indigenous cattle stock. Tanzania's collection of hides and skin has been increasing over time as shown in Figure1. Data for the period between 2000/2001 and 2012/2013 indicates the growth rate of 107% for cattle hides, 380% for goat skin and 75% for sheep skins. The fastest growth has been observed in the collection of goat skins. This is driven by high demand for goat skins in the world market (Board of External Trade, 2004). The decrease in cattle hides and sheep skins collection between 2008 and 2010 was mainly attributed to global financial crisis in 2007 which affected the demand for leather products (FAO, 2010). Despite the increased growth rate of collection, the country's collection remains rather low compared to the potential. The collection levels of produced hides and skins are 60% for hides, 45% for goat skins, and 55% for sheep skins (World Bank, 2009). The quantity collected is much lower than the potential which limits Tanzania's ability to contribute in meeting the quantity demanded at the local, regional and international markets. There are also challenges in handling and meeting quality standards. It is estimated that 25 percent of the hides and skins collected are disposed of as waste due to spoilage and poor quality (URT, 2016).

Figure 1. Hides and Skins Annual Collection Trends in Tanzania (1991/92-2012/13)



Source: Own computation based on URT, 2013



Structure, conduct and performance

Most of collected the hides and skins in Tanzania come from indigenous cattle kept by smallholder farmers (URT, 2011b). Hides are collected by middle men from farmers; the middlemen then normally sell them to the tanneries or traders. About 70% of hides and skins come from rural slaughter slabs/butchers, slaughter houses and abattoirs collected by wholesale agents and 30% from small traders' collections who normally sell it to wholesalers or tanners (Kilimo Trust, 2009).

The market structure between farmers and middle men is relatively competitive. This is because there are many actors. Price is determined by market forces (demand and supply) of final leather products, government fiscal policy and the price volatility from the world market.

Market performance for hides and skins and their products in Tanzania is not yet efficient as it is constrained by the low quality of hides and skins produced and inefficient collection system. A major issue relating to the quality of hides and skin is the value lost through animal husbandry system and practices. These include spoilage, permanent marks made to animal skin during identification, poor slaughtering practices at the slaughterhouse, poor handling practices and the use of inferior technologies during the process of flaying and curing of skins. Flaying of the skins is usually carried out haphazardly because the primary focus is to obtain meat as opposed to presentation of the skin after slaughtering. This leads to scratches, damaged surfaces and uneven skin sizes. Although the potential (demand) is huge but still there are very few operational tanneries in Tanzania.

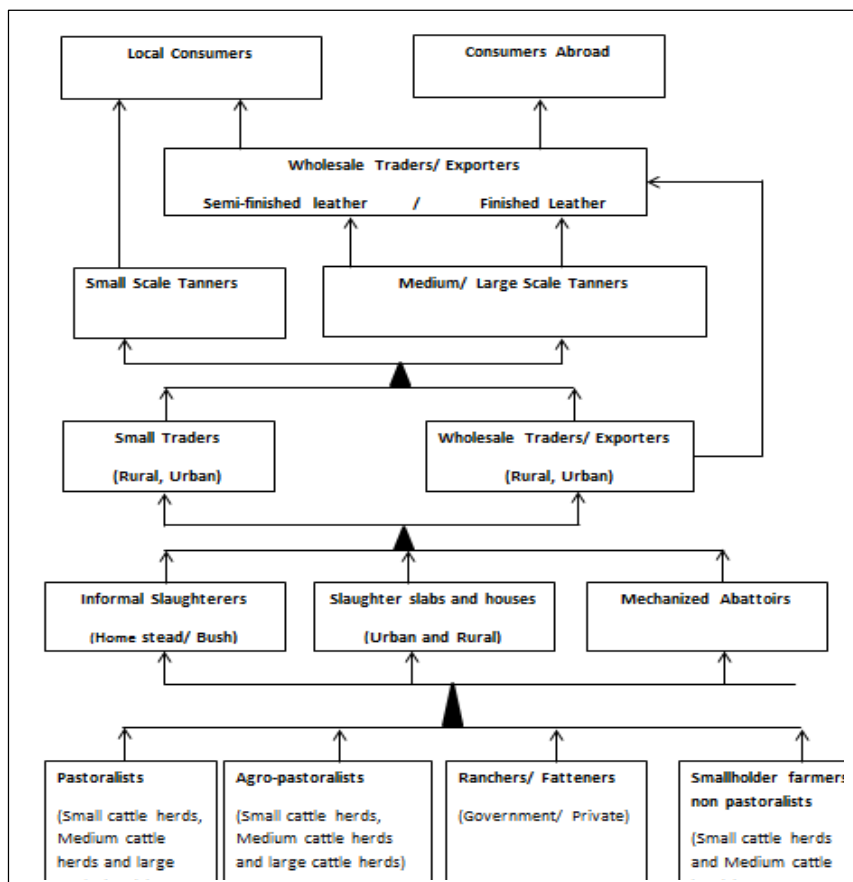
The Hides and skins value chain

The value chain of hides and skins starts with cattle husbandry and ends with leather and leather products (see Figure 2). The first key actors in the hides and skins value chain are the pastoralists, agro-pastoralists, ranchers and feedlot operators. These are responsible for production of animals. Other actors are informal cattle and small ruminant producers, slaughter slab owners, abattoir owners and butcheries. These are responsible for slaughtering and collection of hides and skins. Small traders and wholesale traders/exporters collect and sell unprocessed hides and skins to tanners/exporters whereas tanners/exporters sell either semi-finished or finished leather products to wholesale traders/exporters or directly to consumers.



Small and wholesale traders collect hides and skins from both rural and urban areas. Wholesale traders are also involved in tanning and exporting hides and skins. Most (70%) of hides and skins from rural slaughter slabs/butchers, slaughter houses and abattoirs pass through wholesale agents. The rest (30%) are collected by small traders and then sold to wholesalers/tanners for processing/export (Kilimo Trust, 2009). Industries and factories for leather and leather products e.g. shoes, bags, clothes, etc, comprise a significant portion in the leather value chain. However, the industry is underdeveloped, so if it gets well-developed it will be an opportunity to encourage and motivate more actors to participate in the leather value chain.

Figure 2. Hides and Skins Value Chain in Tanzania



Source: Adapted from Kilimo Trust, 2009



3 Constraints and opportunities to the hides and skins value chain

i) Constraints

The following are highlights of constraints at different nodes of the value chain:

Constraints at the production Level

Poor animal husbandry practices linked to protecting the animals from ticks' attack, such as dipping, create marks to the animal skins that cause the hides or skins to lose their value. Some of animals kept in the pastoral system have scratches, horn rakes, tick bites, curing and identification marks; these lower the skin value. Storage and transportation methods for animals also play a significant part in reducing the quality and value of hides and skins. Other key constraints include limited awareness among herdsmen and farmers on the value of hides and skins; use of rudimentary technology for harvesting skin at butcher slabs and abattoirs; poor handling of hides and skins in slaughter facilities/abattoirs; limited availability of modern slaughterhouses; poor storage and preservation methods; and ineffective collection and management processes of hides and skins (URT, 2016). Estimates show that about 40% of hides and skins produced in the country do not reach the intended markets (URT, 2011b). Half of the hides and skins marketed are graded to be of poor quality and reduce the value of the hides and skin by 10–40% (URT, 2016).

Constraints at the level of processing and value addition

Tanzania continues to export raw produces of hides and skins due to various constraints to agro-processing and value addition. Examples include limited public investment in tanning and processing industries; inadequate investment in abattoirs plus hides and skins collection and storage facilities; lack of skills and technology for progressive value addition; limited access to processing inputs (most of equipment and chemicals for tanning are imported); high costs of electricity; limited access to financing mechanisms for value addition which discourages private investment in tanning; and high cost of production linked to licensing procedures, logistics costs and informal costs. Due to these constraints Tanzania faces underutilization of existing capacity of tanneries. Tanzanian has a total annual processing capacity of 3.6 million hides and 12.8 million skins, which is equivalent to 104 million square feet (Table 1). Actual capacity of utilization reaches around 86% for hides and 61% for skins (URT, 2016). This is attributed to inadequate collection of hides and skins to meet demand, poor quality of produced hides and skins, aging of most of the tanneries and closure of a number of tanneries. A large number of the privatized



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leather-related industries in Tanzania have not performed as per expectation and others have closed because they were making losses.

Consequently, there is limited value addition in the industry. Hides and skin processing and value addition in the country is about 30% of the market demand. The country exports 70% of hides and skins in unprocessed (raw) form which indicates the need for investing in processing industries and value addition (URT, 2011b). Furthermore, Tanzanian leather products and leather footwear manufacturing is extremely limited; as a result, the country's export of these products is negligible (World Bank, 2009).

Table 1. Tannery Capacities in Tanzania (2015)

Company	Location	Installed annual capacity (pieces)		Installed annual capacity (ft ²)	Current Status, 2016
		Hides	Skins		
Afro Leather Industries Ltd	Dar es Salaam	300,000	700,000	10,650,000	Not operating
Lake Trading Co. Ltd	Kibaha	90,000	420,000	4,260,000	Operating
Himo Tanners & Planters Ltd	Moshi	90,000	900,000	6,300,000	Operating
SAK International Ltd	Arusha	450,000	900,000	15,300,000	Closed
Moshi Leather Industries Ltd	Moshi	180,000	1,200,000	9,900,000	Operating
ACE Leather (T) Ltd	Morogoro	1,200,000	3,600,000	27,450,000	Operating
Meru Tanneries Ltd	Arusha	624,000	1,500,000	8,310,000	Operating
Xing Hua Investment Co. Ltd	Shinyanga	900,000	2,100,000	12,700,000	Not Operating
Huacheng International Ltd	Dodoma	900,000	1,500,000	9,000,000	Not Operating
TOTAL		4,734,000	12,820,000	103,870,000	

Source: URT, 2016

Constraints to Trade and Marketing in the hides and skins sub-sector include unfavorable policy environment to encourage trade investments; limited and quality of physical infrastructure and facilities (transport and communication) in rural remote areas; limited access to financing for trade; limited market development capacities of tanneries and leather product manufacturers; and low level of product market diversification due to insufficient trade information. Furthermore, low profitability of the industry is also a key challenge. Box 1 summarizes issues around profitability.



Cross-cutting constraints include inadequate enforcement of legislation and regulations governing the sector, environmental challenges such as high water consumption and water pollution by the leather industry.

The government acknowledges that there are many constraints to this value chain as seen in the synthesis of the issues articulated in the hides and skins strategy (URT, 2016). The Strategy outlines measures to be taken by the government in addressing them. This is a positive move which brings a lot of optimism in the hides and skin value chain.

Box 1: Profitability of hides and skins in Tanzania

Generally, the profitability of the hides and skin industry in Tanzania is very low. This is a major disincentive to investors at different nodes of the value chain. A high proportion of the hides and skins produced in Tanzania is of low quality, thus they fetch low prices in domestic and international market. Similarly, the producers and traders of hides and skin miss the opportunity of getting premium price that can be obtained from adding value to the products.

The price margin of hides and skins increases as the farmers/traders add more value to it. The price of TZS 300–400 is given when hides and skins collected directly from abattoirs, TZS 600–700 is given to collected salted hides, TZS 700–800 offered by the tannery and USD 0.6– 0.7 for wet-blue. Despite these potential gains not many investors are keen enough to value addition to hides and skins because of low returns to such investments. Most of hides and skins are sold directly from abattoirs to tanneries or to exporting companies in raw form. Kalindimya *et al*, 2016 illustrates the challenges of low profitability that the total cost of processing raw hides and skin to wet blue for 1 piece which has 2 sides each with about 10 sq. ft. is TZS 20,000, the value of processed 20 sq. ft. is TZS 40,000 leading to a profit margin of TZS 20,000

Sources: URT, 2011a; URT, 2011b; URT, 2016 Kalindimya *et al*, 2016

ii) Opportunities

Producing good quality hides and skins is a great opportunity for the livestock sector due to the existing and growing market demand. Hides and skins are used to produce leather products (such as footwear, bags, wallets, clothes, furniture, belts and paints) for local and export market. Most of these products are produced by small and medium enterprises for sales locally as well as in regional and international markets. Leather products have the great potential for regional and international markets due to growing demand for leather products associated with the growth in the population of people falling within middle and high income classes. Tanzania is uniquely positioned with eight bordering countries (Rwanda, Burundi, DRC, Kenya, Uganda, Malawi, Zambia, Mozambique) giving a total regional market size of more than 150 million people. There is also a huge potential to sell the products locally to the tourists who frequently visit the country as Tanzania is an important tourist destination.



More production of quality hides and skins will minimize importation of leather products and will encourage people to use the products as they will be easily accessed. It is estimated that the United Republic of Tanzania imports around 40 million pairs of shoes and it exports relatively little tanned leather to any of its neighboring countries (URT, 2016). In the EAC alone, the United Republic of Tanzania exports around USD 600,000 worth of leather goods, while the demand from its neighbors is as high as USD 63 million. This represents just 1% of the market demand for exports. This implies that, there is huge potential market for investors and traders for hides and skins, leathers and finished leather products.

The potential for exporting leather and leather products to the world market has nearly doubled over the last decade and it is expected to grow rapidly over the next decade. This is because of continued expansion of the industry which has made the stable demand from large importing markets (URT, 2016). The government of Tanzania has imposed 40% export levy on unprocessed skins which creates a significant competitive advantage for local firms (SAGCOT, 2013). This creates potential opportunity for local investors to enhance their investments and encourage foreign and domestic investors to join this value chain.

4. Development partners/institutions supporting hides and skins value chain

Development partners (DPs) have been supporting the leather industry in Tanzania through different initiatives. These initiatives include the International Trade Centre (ITC) through the Indian Trade Investments for Africa (SITA) that assisted the government of Tanzania to develop the Tanzania Leather Sector Development Strategy for 2016–2020. The strategy aims at transforming the industry to create more jobs and contribute to economic growth.

The Food and Agriculture Organization of the United Nations (FAO) has supported the value chain through various projects from the livestock productivity to marketing of hides and skins. For example, the FAO has supported studies on “Higher value addition through hides and skins” with the intention of highlighting the most important issues in increasing the best use of hides and skins for better livelihood. The Bill and Melinda Gates Foundation, the International Fund for Agricultural Development (IFAD), the United Nations Industrial Development Organization (UNIDO) and the United States Agency for International Development (USAID) have continued supporting the value chain especially on value addition in hides and skins.



5. Recommendations and Policy Implications

- **Ensure effective implementation of policies and strategies for the sector:** There should be more emphasis on implementation, monitoring and evaluation of policies, strategies and development programs/projects on the leather industry of Tanzania. For example, the Government of Tanzania has developed the Leather Sector Development Strategy of 2016-2020. This strategy need to be monitored, implemented and evaluated with the aim of modernizing the leather industry by 2020.
- **Encourage investments that will systematically improve animal husbandry practices:** The limited supply and low quality of hides and skins need to be addressed. The government should place emphasis on quality improvement and collection system of hides and skins to increase the amount of high quality products. These may be achieved by interventions on improvement of the animal husbandry practices (for cattle, goats and sheep) and animal identification practices, investments in feedlots to improve quality of skins and hides within short time, incentives, skills development, appropriate tools and proper preservation of hides and skins.
- **Promote private sector investment in the industry:** The government should encourage more investments in leather and leather products' processing industries by creating conducive business environment for them. Required measures include attracting foreign direct investments and promoting domestic investments.
- **Support collective action in hides and skins marketing:** Encourage and support collective action to facilitate marketing. This can be achieved through establishing cooperative unions for livestock keepers, hides and skins collectors and traders. This will enable them to meet the required demand, to have good quality and they can be able to increase their bargaining power and negotiate terms of trade.
- **Increase training on highly skilled labor in product designing, development and marketing:** Modernization of the leather value chain calls for increasing availability of skilled technicians who are creative in designing with progressive value-addition. Currently, shortage of skilled labor has become an increasing problem given that the majority of those who were previously working for government tanneries have retired and very few new technicians have been trained. Changes in technology and increasing product value by enhancing product functionality in the market calls for urgent training of highly skilled labor in product designing to match with market requirements.
- **Strengthening credit facility for leather value addition, product development and export:** Accessing loans by small and medium enterprises (SMEs) and exporters continues to be a



challenge for reasons that include high borrowing costs, high collateral requirements, the slow processing of applications, low public awareness, and the amount of capital available is too low for the estimated demand. Capitalization of the Tanzania Agriculture Development Bank and establishment of the industrial development window should give high priority to the development of leather industry due to the comparative advantage and underutilization of the existing tanneries.

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