



A Competitive Economy for National Development

# POLICY BRIEF

April 2021

## Uganda loses USD 271 million annually due to limited investment in leather processing

### Executive Statement

Uganda's leather sector has enormous potential in transforming the livestock sector through providing the necessary jobs, acting as an avenue for import substitution and export promotion. However, the leather sector is faced with limited processing of leather, with over 95 percent of the sector's exports in raw or semi-processed. This costs Uganda over USD 271 million worth of export revenue. Accordingly, this brief recommends the need to; establish a leather park for all tanneries, promote public-private partnership investments in finished leather processing and establish capacity building programmes to skill leather SMEs (Juakalis) to produce high-quality leather products.

### Introduction

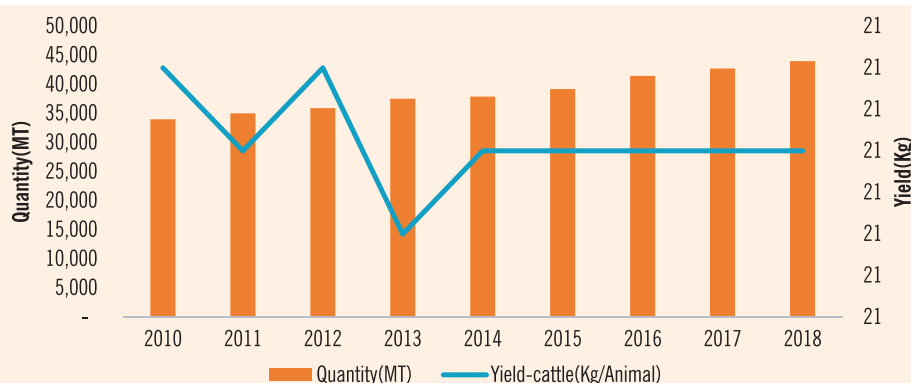
Uganda's leather sector possess great potential to promote livestock industrial transformation for employment creation and export promotion. More specifically, the sub-sector substantially contributes to Uganda's export earnings (USD 46.5 million in 2019) and ranks the second top foreign export earner in the livestock sector after the dairy sector (ITC 2020). With the recent growth in livestock production estimated at 2.1 percent per annum, the leather sector presents an enormous opportunity for employment and exports given its backward linkages with the beef sector as a source of hides and skins (raw materials).

Notwithstanding this potential, Uganda's leather sector performs far below its capacity, as evidenced by over-reliance on low value/ raw

leather exports. Notably, about 95 percent of the country's leather exports between 2015 and 2019 were classified as semi-processed or raw leather (ITC 2020). Furthermore, Uganda's leather processing industries operate below capacity at 60-70 percent, which renders the leather sector less competitive in the regional and global markets.

In light of these challenges, the brief is an excerpt of the 2020 Value Chain Status Report titled "Transformation for Agro-Industrialisation: A Case of Livestock Value Chain" developed by EPRC in collaboration with the Private Sector Development Unit of the Ministry of Finance, Planning and Economic Development. The report utilised secondary data, desk review of the existing documents and qualitative data from key informant interviews with the value chain actors at different levels.

**Figure 1** Trends in hides and skins production and productivity in Uganda



Source: Authors' construct using data from FAO 2020

## Key Findings

**Productivity of hides is stagnant and below the optimal capacity:** Hide production in Uganda has grown by 29.3 percent from 33,996 MT in 2010 to 43,982 MT in 2018 (Figure 1). However, the productivity has stagnated at 21 Kg/animal, which is far below the yields realised in other countries such as Egypt (36 Kg/animal), South Africa (41 Kg/Animal) (FAO, 2020). This low productivity of hides and skins is primarily explained by production-related factors that include inferior animal breeds, free grazing that exposes animals to skin cuts and animal parasites that affect the quality of animal hides (Uganda Investment Authority, 2018).

**Hide, and skin processing are limited amidst underutilisation of tanneries:** Whereas Uganda's leather sector comprises seven (7) tanning industries, these primarily operate at about 60–70 percent of the installed capacity. According to the Key Informant Interviews (KIIs), underutilisation of tanneries is attributed to financial constraints, machine breakdown, high operation costs (power and water), and limited environmental compliance.

*“The tanning industries incur high production costs on effluent waste treatment, power and water for leather processing. For instance, Leatherland Limited incurred a cost of UGX 1.85 billion to purchase an effluent treatment plant and incurs monthly power costs of about UGX 25 million. These costs are unmanageable for some smaller tanneries, forcing them to close”* –KIIs, Leatherland Limited (2020)

**Uganda loses over USD 270 million annually due to limited leather processing:** According to estimates, Uganda's potential earnings stand at USD 273.9 million annually; however, the country

only earns USD 46 million, equivalent to 12 times less than the potential earnings from the sector (Table 1). This is explained by limited investment in finished leather processing, given that only one sector processes rawhides to final leather. This situation has resulted in unmet demand for finished leather on the local market—leading local SMEs import finished leather from other countries such as China and Kenya.

### Growing demand for leather products in the domestic market:

Whereas Uganda is a net exporter of leather products, its imports of finished leather and leather products have steadily grown by 40 percent from USD 11.5 million in 2015 to USD 15.8 million in 2018 (Table 2). The growth in leather imports points to increased demand for leather products by local leather SMEs and consumers owing to limited domestic production. This presents an opportunity for the private sector to invest in finished leather and leather product processing to satisfy the unmet demand for leather products on the local market. The key informant interviews also confirmed this finding:

*“The number of local SMEs (Juakalis) dealing in leather products has steadily increased, yet these have no reliable supply of finished leather on the local market. Consequently, SMEs end up sourcing leather from Kenya and China. The best leather quality (Grade 1 and Grade 2) produced locally is exported to fetch high prices, while the low quality (Grade 3 and Grade 4) is sold domestically. Hence SMEs shun it and import good quality leather to remain competitive* – KII, Uganda leather and Allied industries Association (2020).

According to the Key informant interviews, an increased import bill is also attributed to the local consumers' preference for imported

**Table 1** Value addition potential and current losses in the leather sector

Stage	Potential Earnings (USD million)(A)	Current Earnings (USD million)(B)	Estimated Loss (USD million) (A-B)	Value Added Factor
Raw Hides	22.9	0	0	1 time
Wet blue	45.7	41.5	4.1	2 times
Crust	68.5	0.7	67.8	3 times
Finished leather	79.9	0.8	79.1	4 times
Finished Product	273.9	2.7	271.2	12 times

Source: MTIC 2015

**Table 2** Trends in foreign demand and imports of leather products (USD '000)

Products	2015	2016	2017	2018
<b>Tanned hides and skins (wet blue)</b>				
Exports	62,929	51,370	53,118	46,246
Imports	125	130	1	24
<b>Raw hides and skins</b>				
Exports	0	0	103	22
Imports	5,662	2,534	3,519	4,751
<b>Finished leather products</b>				
Exports	1,314	803	418	301
Imports	11,504	13,938	14,636	15,864
<b>Total exports</b>	<b>64,243</b>	<b>52,173</b>	<b>53,536</b>	<b>46,547</b>

Source: Author' compilation from ITC Trade Map, 2020.

leather products to locally made leather products.

*The leather products made locally are of inferior quality leather due to limited artisanal skills among the local SMEs to give a good finishing to leather products such as shoes, leather bags, among others-* Klls, Uganda Leather Training Facility Centre Trust, 2020

### Conclusions and recommendations

Uganda's leather sector has enormous potential, driven mainly by the growing demand for finished leather and leather products (footwear products, bags, belts). However, the sector growth is currently hampered by limited processing of hides and skins to final leather leading to an increased import bill for leather products.

To realise the sector's potential, the following strategic recommendations are suggested:

- **Invest in finished leather processing:** There is a need to pursue public-private partnerships between Uganda Development Corporation and the private sector to invest in the finished leather processing plants to promote finished leather and leather products for domestic and export demand.
- **Invest in capacity building/skilling:** There is a need for stronger PPPs between SMEs and Leather training centres/institutions to train fresh graduates, employees, and SMEs in leather processing and manufacturing, just as in Ethiopia. This can be achieved through establishing partnerships (MOUs) between associations of SMEs in the leather sector (Juakalis) and institutions that offer leather courses, such as the Africa Institute for Strategic Animal Resource Services and Development in Makerere University Kyambogo University and the Uganda Leather Training Facility Centre Trust.
- **Establish a leather industrial park:** To offset the very high costs of water and power in the processing of leather by the tanning industries, the Uganda Investment Authority could designate a leather investment park (just as is the case in Kenya and Ethiopia) where investors can establish industries and access free or subsidised water as well as proper wastage disposal.

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