



# Cluster-based development in Tunisia: Evidence from leather & dates sectors

**Research findings and policy recommendations**

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# Advantages of a cluster

- Clusters – the geographic concentration of a larger number of specialized firms that are working in similar or related activities– have played an important role in the rural transformation of many countries.
- Use the existing strengths (social trust embedded in community and abundant labor) to overcome limiting factors, such as credit constraints and lack of formal institutions.
  - A production process is divided into many incremental steps, lowering the capital entry barriers.
  - Merchants often put-out the production to different family workshops. Producers don't need much working capital.
- Easy for each other to learn technologies.
- Better access to markets (both final goods and input supply). Save the sales and purchasing costs.

# The Cluster-based Development (CBD) model is consistent with Tunisia's current stage of development

- Geographic concentration of business activities
- Availability of complementary inputs
- Historical roots
- Labour intensive
- Large youth enterprising population
- Local community strength with existing embedded networks
- Decentralized institutions

## A bottom-up approach

The research team developed a four-step bottom-up diagnostic methodology:

- Stock taking of available studies on clusters in Tunisia.
- Initial scoping mission to help identify a set of promising “organic” rural clusters in Tunisia for further study.
- Field visits to conduct rapid field assessments of the clusters identified.
- Workshop to present preliminary field findings and to obtain expert advice to validate and enrich the case study findings.

# Dates – Overview

- Visited farmers, collectors, and packaging centers/exporters in Tozeur and Kebili
- Dates account for 20% of Tunisia's total agricultural exports in 2018 (FAOSTAT)
- Generates jobs for about two-thirds of the active population in date producing regions (GID 2019)



## Dates cluster: A supply side shock

- Tunisia's dates sector is facing supply-side challenges related to environmental and ecological threats, key inputs like water and labor, and storage.
  - Climate change & disease – higher temperatures and dry conditions can affect yields
  - Water access/quality – public wells may be shut down, private access is costly, salinity is increasing
  - Labor – it is increasingly difficult to find qualified labor for pollination, harvesting, sorting, etc.
  - Storage capacity – farmers, collectors, and exporters all highlight the need for more cold storage
- Many of these supply-side issues cannot be solved through individual action, so it requires a collective approach.



## Dates cluster: untapped opportunity

- Dates have great economic and cultural significance in Tozeur and Kebili
- Strong global demand
- Potential for expansion into greater value-added products and dates derivatives/palm waste sectors
- Local/historical know-how
- Strong existing cluster networks
  - GDAs
  - GID
  - Pole Djerid (PPP)



# Dates – Short-term Priorities

Bottlenecks	Recommendation
<b>challenges in availability, cost, and quality of water, as well as other inputs like soil and electricity</b>	<ul style="list-style-type: none"><li>• Increase use of bubbler irrigation and other water-saving technologies</li><li>• Increase use of compost and fertilizer to improve soil quality</li><li>• Invest in solar energy to reduce electricity costs</li></ul> <p><i>Likely requires gov't support &amp; PPPs; possible donor intervention</i></p>
<b>cost and availability of qualified labor</b>	<ul style="list-style-type: none"><li>• Develop market-led mechanization hiring services<ul style="list-style-type: none"><li>• Shown to increase adoption of ag. technologies (Diao, Takeshima, Zhang 2020)</li></ul></li><li>• Support mechanization of pollination, harvesting, sorting, packaging, and other labor-intensive practices along the value chain</li></ul>
<b>storage and collection capacity</b>	<ul style="list-style-type: none"><li>• Encourage private sector to establish shared cold storage facilities that cluster members can rent</li><li>• Pursue PPPs to guarantee the return on investment in cold storage</li></ul>



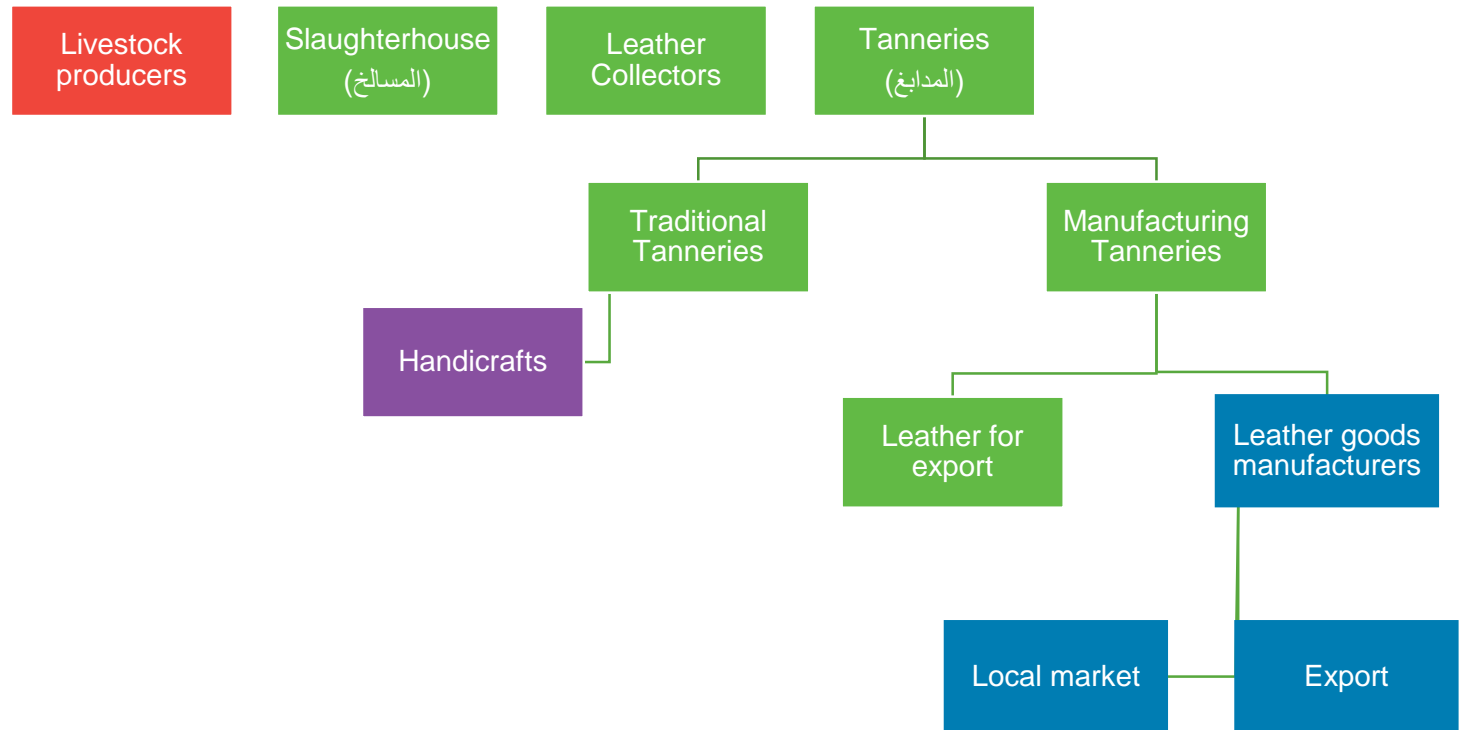
# Dates – Long-term Priorities

- Develop new dates varieties with higher water efficiency, are resilient to climate change, and less prone to disease
- Improve quality certifications and help exporters meet international standards
- Develop palm waste/ recycling (uses waste outputs, used as inputs for compost, fertilizer)
- Promote Product differentiation for higher value addition
- Leverage GDAs and other existing cluster networks to strengthen coordination along the value chain



# Leather cluster – Overview

- Visited different actors along the leather and footwear value chain in northern governorates of Tunisia (Tunis, Monastir, Moknin, and Sfax)



## Leather cluster: A demand side shock

- Tunisia's leather industry is somehow shrinking. Pre-revolution, there were 6,000 workshops nationwide, while in 2017 there were only 2,500. In 2010, there were 520 big factories, while by 2017 the number was down to 202.
- Workers in the sector reported that they used to work at least 10 months per year, but now due to depressed demand, they only work 3 or 4 months per year, which eventually leads many skilled workers to move to other jobs outside the sector
- Global depressed demand, tough international competition, high energy costs, increasing pressure for environmental certifications from international markets, and policy challenges all limit growth and hinders the sector's competitiveness.



# Leather cluster: untapped opportunity

- Strong social capital embedded within the local community,
  - During times of slowdown in the sector, these workers are unlikely to be laid off by factory owners
- Tunisia's leather cluster competitiveness.
  - The abundant skilled labor has on average 20 years
  - Technical know how



# Leather – bottlenecks along the value chain

## *Factors negatively influencing the quality of hides and skins*

- **Livestock health**
- **Slaughterhouses: poor handling and not well equipped to deal with hides.**
- **Leather collectors: lack of equipped transportation links.**

## **Bottlenecks facing tanneries**

- **No mechanisms in place to identify leather quality or to detect defects before sorting and buying leather from leather collectors.**
- **Lack of modern facilities and limited capacity to undergo further processing and export fully finished tanned leathers in various forms and colors.**

## **Bottlenecks facing Shoe Manufacturers**

- **Lack of access to good quality leather limits capacity to enhance product differentiation and competitiveness**
  - **Some resort to cheap imported synthetic leather**

# Leather - Overarching sector challenges

- Weak or lack of coordination among value chain actors
- Depressed local demand as a result of the shrinking number of tourists
- Unfair competition exacerbated by poor enforcement of trade policies and illegal smuggling
  - Current tariffs system does not differentiate between imported finished goods and imported inputs for manufacturing
- Soaring costs of production (electricity, labor, highly taxed primary inputs) – limits competitiveness
- Lack of access to credit -- a chicken and egg situation
- Negative externalities: Environmental concerns and water pollution due to Idle wastewater treatment facilities



# Policy recommendations (1) : *Enhance Tunisian leather quality and competitiveness*

## In the short-run:

- Promote the Ministry of Agriculture's role to monitor and raise awareness of livestock health. Through:
  - Farmer campaigns to raise awareness of preventative measures to prevent skin diseases.
  - Equip existing extension services for livestock producers.
- Enhance coordination efforts between the Ministry of Industry and the Ministry of Environment to operate the existing wastewater treatment facilities

## In the long-run:

- Enhance the technical capacity and increase the resources of the National Center for Leather. (officials exchange learning programs )
- Promote joint ventures to help Tunisian producers meet international market standards
- Install one-stop shops to eliminate red tape and promote investments

## Policy recommendations (2) : *Promote access to new international markets:*

### In the short-run:

- Seek more trade agreements (US is an unutilized market)
- Government should sponsor traders and workshop and tannery managers to visit international exhibitions and fairs to promote their products.
- Review existing tax policies
  - Higher tariff should be charged for imported finished goods and lower tariffs (or no tariff at all) for the import of accessories or other necessary manufacturing inputs

### In the long-run:

- Enforce the rule of law to prevent smuggling.
- Establish quality standards and promote labeling of Tunisian-made products in retail markets ( to help buyers distinguish between cheap and low-quality imported products and locally produced genuine products)

## **Policy recommendations (3) : *Promote technological advancement and mechanization for higher value addition***

***Through private-public partnerships and donors***

### **Slaughterhouses**

- Enhance the skill set of slaughterhouse workers to handle hides properly so that they can be used in high-quality leather production.
- Enhance the infrastructure and hygiene of slaughterhouses.

### **Leather collectors**

- Enhance transportation links and equip them with cold chains and storage facilities to ensure that the quality of hides is not affected by heat during the summer.

### **Tanneries**

- Increase mechanization and introduce more intensive technologies, especially for the second stage of processing.
- Enhance the skill sets of workers in industrialized tanneries.

Develop wastewater treatment techniques to minimize costs and to reduce the impact of used water on environment. This could be done through public-private partnership arrangements.