



## Evaluation on Economic Loss for Rejection of Finished Leather in Bangladesh

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### Abstract:

Leather is the cornerstone of one of the oldest industries in Bangladesh, which plays a pivotal function in the national economy with a praiseworthy reputation worldwide. After the French product Bangladeshi leather is the best in the world. Leather industry has a vast contribution on our economy and after all on total GDP. In Bangladesh the leather industry is well established and is ranked 4<sup>th</sup> in terms of earning foreign exchange, as it accounts for about 6% of total exports earnings. The study aims to assess the economic loss caused by the rejection of finished leather. The 12 tanneries of Hazaribagh, Dhaka have been used as a site selection in this research. There are four grades – Primes grade (A-D), Secondary grade (A-F), Rejections (E-F) and Double rejections (HH). The factors of grading mainly depend on the surface quality and defects of the finished leather. Usually buyers demand either Primes grade (A-D) or Secondary grade (A-F), which are considered as the best quality leather. The price of the leather varies quite considerably with its quality. This paper basically indicates the economic loss which occurs due to the low cost of secondary grade, rejections and double rejections. Again, this study found that low cost causes for the absence of their proper quality. To assess the economic loss for rejection of finished leather in Bangladesh is the main objective of this article.

**Keywords:** Bangladesh, defects, economy, foreign exchange, GDP, grade, quality, rigidity.

### 1.0 Introduction:

The existing socio-economic condition of Bangladesh provides an inspiring expectation for leather industry (Khan et al., 2015). For many developing countries, leather and leather manufacturers comprise an unavoidable and inessential source for export trade and foreign exchange earnings. For Bangladesh, leather is a high priority industrial sector, a crowning focus area (Khan, 2014). In Bangladesh, leather is the basis of one of the oldest industries and with a good reputation it plays an important role in the national economy (Hira et al., 2013). According to Bangladesh country report (2010), an important contributor to the country's GDP is the industrial sector. One of the most important and largest industrial businesses is tannery industry (Khaled et al., 2009). It is an individual, vastly multi-dimensional, and reciprocally dependent material worldwide by Salauddin and Tawhidur (2013). Leather is considered as a traditional export item in Bangladesh and among the 15 sectors which are identified for national income "Leather industry" is one of them (Musawir 2012). The leather sector comprises 220 tanneries, have an entire capacity

of processing about 400 million square feet of wet blue, 300 million square feet of crushed leather and 130 million square feet of finished leather and produces about 223.71 million square feet of leather including 117.54 million square feet of crushed leather and 106.17 million square feet of finished leather for exports per year (Rabeya and Shaheriyar, 2014). Bangladesh produces 2%-3% of world's leather market and about 95% of leather and leather products are marketed abroad (LFMEAB, 2015). In this sector Bangladesh has limited export but it is very crucial for country's economic development and it is also indeed that Bangladesh leather and leather exporting rank is 35<sup>th</sup> in the world (Laila and Masudur, 2010). According to industry insiders, Bangladesh now exports only 0.5 percent of the global leather and leather goods market worth US \$215 billion. Bangladesh exports its leather, leather-goods and footwear to 53 countries of the world. The major importing countries are Italy, Germany, Japan, Spain, Hong Kong, China, Brazil, UK, Canada, Australia, the USA, Vietnam and Fiji Island (Firoj, 2013). According to EPB (Export

Promotion Bureau), the total export of leather and leather goods crossed US \$1 billion in fiscal 2014-15 for the second year in a row and exported leather and leather goods worth US \$1.13 billion in 2014-15 which was US \$1.12 billion in the previous fiscal year including exports of finished leather contributed US \$272.3 million. Because of the inherent variation, quality of the leather varies and its quality differ the price quite considerably (Habib et al., 2015). According to a technical report (2013), Leather industry is a significant industrial sector in Bangladesh and has a sizable impact on our economy (Abul et al., 2013). This sector has huge opportunities in generating employment, entrepreneurship and investment, according to a technical report (2013). A number of surface and structural defects are related to the quality of finished leather that hides and skins acquire. The study area is comprised of tannery area in Hazaribagh, which is home to between 90 and 95 percent of all tanneries in Bangladesh and considered as the tannery hub of Bangladesh. It is on the southwestern part of Dhaka, the capital

**List of Tanneries:**

Chinese Tannery	Bangla Tannery
Apex Tannery	M/S. MB Tannery Ltd.
Bay Tannery	M/S. Shadhin Tannery
Lexco Tannery	Razib Leather Complex
M/S. Chowdhury & Co. Ltd.	M/S. Reliance Tannery Ltd.
Lamisa Leather	M/S. Yousuf Tannery Ltd.

**2.2 Sampling:**

For analyzing the economic loss for rejection of finished leather, random sampling method has

**3.0 Results and Discussion:**

Leather industry of our country is well established because of its high value addition, huge growth and employment opportunities, leather sector has already been announced a ‘Thrust sector’ of the country. Having an exclusive demand of export earning sector in Bangladesh, leather sector plays an important role on our economy. It is known world-wide owing to its high qualities of fine grain, uniform fibre structure, smooth feel and natural texture. This sector has powerful stimulus to the economy than the other sectors. As leather and leather manufactures are a very important export item of Bangladesh, the total production of leather and leather goods and the export income are targeted in every year. In accordance with a

during the life of the animal, slaughtering, storage and transportation stages (Yacob 2013). Due to improper nutrition, skin diseases, improper slaughtering and flaying operation, improper curing, transportation and improper processing of hides and skins into leather causes defects and defects of the leather have negative effects on this sector by Farhad et al., (2015). Leather defects are imperfections occurring on the surface ultimately resulting in an unsightly appearance and weakness of the product leading to rejection and down-grading (Hadush et al., 2016). The aim of this analysis is to assess the economic loss for rejection of finished leather in our country.

**2.0 Materials and Methods:**

**2.1 Study Area:**

of Bangladesh. It is residing between 23°45’ to 23°44’ north latitudes and 90°21.85’ to 90°22.15’ east longitudes. The study was performed for twelve tanneries of this area.

been used in this article. We chose the export oriented leather industries located in Hazaribagh industrial zone in Dhaka, Bangladesh mainly for this investigation. Having defects and lack of proper quality finished leather got rejection and sold at low rate in local market, this causes economic loss and in this study we have been determined the economic loss due to the rejection. Among total 20,000 pieces of finished leather which have the thickness about 11-13mm and black in color, 5000 pieces were taken Group-I, 5000 at Group-II, 5000 at Group-III and 5000 at Group-IV severally of the above mentioned tanneries.

statistic, in 2008, 62% of all export earnings from the sector came from finished leather, but by 2014, this proportion had fallen to 39%. According to Leather goods and Footwear Manufacturers and Exporters [LFMEAB] (2016), export earnings have been targeted to earn \$ 5 billion by 2021 from leather sector. Due to the rejection, the rejected finished leathers are selling at low rate in local market, which causes economic loss in our economy. Buyer’s want to buy either Group-I, primary grade (A-D), in which A 10%, B 20%, C 30% and D 40% or Group-II, secondary grade (A-F), in which A 5%, B 10%, C 15%, D 20%, E 25% and F 25%. Group-I costs US \$2.1 and Group-II costs US \$1.9 approximately. There are also two groups which are sold in local market at low price. Group-III, rejections (E-H), in which E 10%, F 20%, G 30%

and H 40% and Group-IV, double rejections (HH). The cost of Group-III and Group-IV is US \$1.5 and US \$1.1 (approx.) respectively. The price of Group-II, Group-III and Group-IV is lower than the Group-I. These occurs great loss in our economy. In our study the percentage of loss is estimated. The percentage of loss for Group-II, Group-III and Group-IV was 9.5%, 28.6% and 47.6% accordingly. In this article we also revealed that, the rejection mainly occurs for the quality of finished leather which is related to a number of defects that hides and skins get during the life of the animal, slaughtering, storage and transportation stages. The main reason of rejection is change of shade, poor covering, glazing difficulties, top coat cracks, bronzy effect, scratch marks, poor rub-fastness etc. of finished leather resultant as a poor quality leather and obtain economic loss. Remedies of those defects are respectively use perfect combination and avoid using such pigment which fade on exposure, use proper shade of dye,

synthesize the amount of plasticizers, reduce binder and increase plasticizer, reduce dyestuffs and increase binder, change abrasive paper to correct grit, increase binder and reduce sulphated oil etc. To avoid the rejection of finished leather, it is very necessary to keep the leather free from defects. Lead to the slaughtering and flaying stage to finished leather, we should be very careful each and every step so that the leather cannot be damaged for incaution. To fulfill the target of \$ 5 billion by 2021, we should reduce loss for rejection of leather. If we minimize the loss, we can be able to earn more. The sector may achieve the target by reducing the rejection as well as other difficulties. The economic loss for rejection of finished leather is shown in Table-1. Figure-1 shows the percentage of grades in Group-I, Figure-2 shows Group-II, Figure-3 shows Group-III, Figure-4 shows the total cost of the groups and Figure-5 shows export rate on recent years (According to Bangladesh Tannery Association).

**Table 1: The Economic Loss for Rejection of Finished Leather in Bangladesh**

Group No.	Grade Name	Grades	% of Grades	Average Rate	Total Cost (US \$)	Difference from Primary Grade	% Of loss
Group-I	Primary Grade (A-D)	A B C D	10% 20% 30% 40%	US \$2.1	5000×2.1 = 10,500	-	-
Group-II	Secondary Grade (A-F)	A B C D E F	5% 10% 15% 20% 25% 25%	US \$1.9	5000×1.9 = 9,500	1000 US \$	9.5%
Group-III	Rejections (E-F)	E F G H	10% 20% 30% 40%	US \$1.5	5000×1.5 = 7,500	3000 US \$	28.6%
Group-IV	Double Rejections (HH)	HH	100%	US \$1.1	5000×1.1 = 5,500	5000 US \$	47.6%

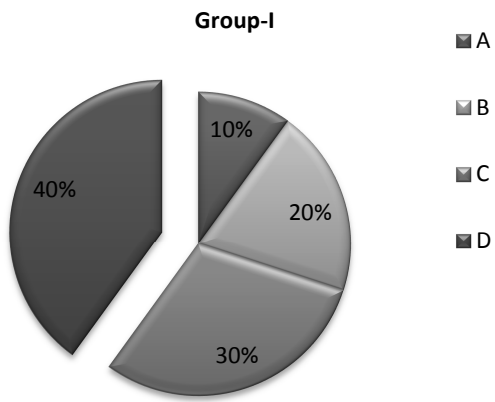


Figure 1- Percentage of Primary Grade (A-D)

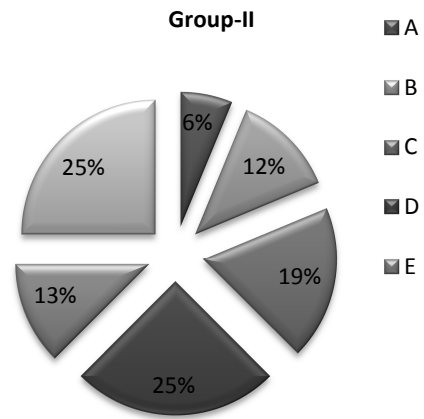


Figure 2- Percentage of Secondary grade (A-F)

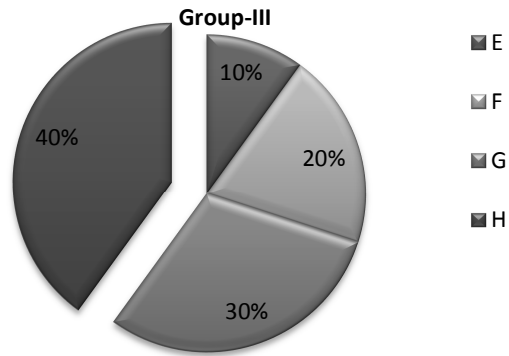


Figure 3- Percentage of Rejections (E-H)

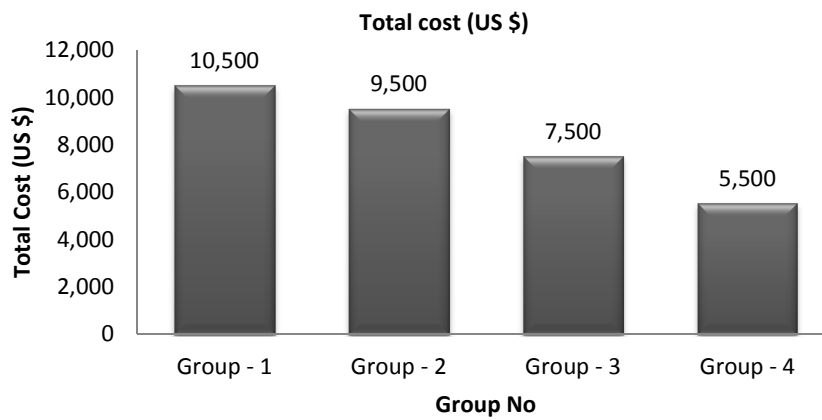


Figure 4- Total cost of the groups

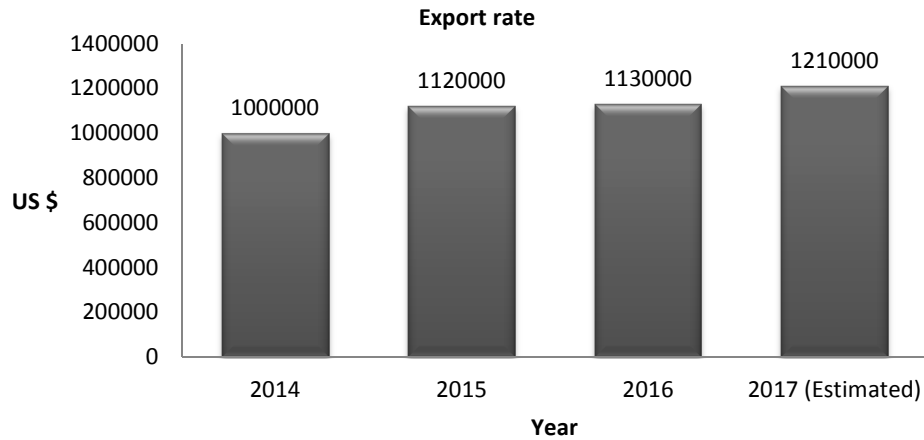


Figure 5- Export rate on recent years

#### 4.0 Conclusion:

Bangladesh is an ideal offshore location for leather and leather products manufacturing with low cost but high quality. The leather and leather goods sector is one of the fastest growing sectors of the world economy. But rejection of finished leather has occurred great loss in our economy. This paper has elaborately dealt with the economic loss for rejection of finished leather in Bangladesh. In this study we also determine the causes of rejection and their remedies. The economic loss due to quality deterioration of exported leather in the article was estimated to be resolved in order to achieve development in this sector.

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