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SUBCONTRACT

FINAL REPORT

ON PROJECT

**DP/ETH/93/005
CONTRACT NO. 96/086**

**A PROCUREMENT SYSTEM
FOR ETHIOPIAN HIDES & SKINS
BASED ON QUALITY**

**THIS REPORT HAS BEEN PREPARED
FOR
UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANISATION**

**BY
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INTRODUCTION

Ethiopia is primarily an agricultural country satisfying 95% of its own food requirement, a major feature in this sector is its livestock. At approaching 68 million head it is the largest such population in Africa.

ETHIOPIAN LIVESTOCK POPULATION 1995 IN MILLIONS			
TOTAL POPULATION	CATTLE	SHEEP	GOATS
67.85	29.45	21.7	16.7

This vast natural resource is capable of supplying in excess of 13 million hides and skins for the country's leather industry, an industry that is now well equipped and technically quite advanced in tanning. The rate of development of this sector has been greatly assisted by (RALFIS) US/ETH/88/100. The industry is rapidly gaining expertise in the finishing out of leather and will benefit shortly from Phase two of the development plan US/ETH/92/200 where greater emphasis is being placed on the finishing aspects of leather manufacturing.

The indigenous hides and skins are a base from which some of the worlds finest leather is produced in terms of grain character and handle. Unfortunately only a small proportion of this material reaches its full potential as very high proportion of hides and skins are down graded owing to defects. Defects that fall into two main categories.

- Those arising from disease and poor livestock husbandry.
- Those arising through poor handling practices in the slaughtering, flaying, preservation and storage of hides and skins.

Disease in hides and skins is a world-wide issue and is quoted by most tanners, correctly, as the major problem they face in improving the quality mix of their production. Unfortunately with the emphasis placed upon disease as an issue there is a tendency, not to ignore, but to place man made defects in a lower "action required" category than is justified. Given that man made faults are correctable and the solutions are known and lie within the scope of the industry, the industry must begin to address them. Disease on the other hand is a more difficult and complex issue and requires serious investigation along the lines recently commissioned by UNIDO in which the BLC are carrying out a study as to cause and effect.

The task of improving the quality of workmanship in flaying and subsequent handling is not an easy one. It will require the co-operation of all parties within the industry, to ensure that within the procurement mechanism there are incentives, paid for premium quality and that those operating within the industry are qualified and competent.

Towards the end of my field trip I was advised that the Prime Minister's Office had taken an interest in the marketing of raw hides and skins within Ethiopia and that a representative of the Tanning Industry Ato Kidanu Chekol with others from the Ministry of Agriculture were already involved in investigations. The coincidence of this report may therefore be timely and helpful in their deliberations. Their appointment supports the view that a Steering Committee is essential to implement a procedure such as this.

Part I

EXECUTIVE SUMMARY & CONCLUSIONS

Reason for Project

To develop a procurement system for Ethiopian hides and skins based on quality, in order that such a mechanism would act as a driver for improvement in the collection and quality of this valuable and replenishable resource.

1. Summary

It is broadly accepted that in order to effect improvements in quality there are several tools which are effective; Supervision, Training and Incentives. In Ethiopia only 2% of slaughtering and flaying takes place in a controlled environment therefore supervision as a route to improve quality and operator performance is not practical. This leaves training and financial incentives as the only alternatives.

It was clear from field work that operators in the majority of cases had received some training and that the level of skill was fair but needing further development. However it was equally clear upon the inspection of material prepared prior to my arrival that those skills were not always being put into practice. A position that will not change until financial gain is derived from the input of care and attention. Without financial incentive, the investment already made in training under US/ETH/88/100 cannot be capitalised upon nor will future work by extension officers be seen by the primary producer to have validity. It is imperative to incentivise the process to maintain the integrity of work already done and improve the quality and collection of hides and skins.

2. Conclusion

The procurement of hides and skins in Ethiopia must be based on purchase by grade, under a mechanism which is effective, efficient, fair and sustainable. Many of the primary factors for such a mechanism already exist. Those that need to be established can be accommodated, provided there is the will to implement and a body is charged with the task, and empowered to act in the interest of the industry as a whole. [A Steering Committee possibly a reconstituted Hides and Skins Committee]

To ensure optimum effect, the three main bodies involved in the industry should be represented on The Steering Committee, The Tanners Association, The Traders Association and the Ministry of Agriculture and given the importance of the industry to the national economy the chairman should be appointed by the Prime Ministers Office.

The mechanism should take advantage of established procedures and personnel wherever possible, to minimise change and safeguard the investment already made. Incentives to enhance quality and remedies to deal with the inevitable issues that will arise upon the introduction of purchase by grade must also be introduced.

The objectives above can be accommodated by using the existing systems for the collection of hides and skins supervised by the 400-500 extension officers. These officers can be empowered to enforce the collection, purchase and transportation to Addis Ababa of hides and skins by grade, based upon the existing Ethiopian Standards for Hides & Skins, provided they are given the support of The Steering Committee and the resources required by the Ministry of Agriculture.

Upon reaching Addis Ababa hides and skins would be sold to the tanneries by **auction**. The Auction House should be established by the Steering Committee and run on a self financing basis. The Auction House administration should be responsible for monitoring all transactions in hides and skins to ensure that the auction is not circumvented and to establish an interactive price mechanism to avoid collusion to effect a significant downward movement in price, possibly by setting a daily reserve price that is calculated as a percentage of last price made at auction. Traders wishing to operate through the auction would be invited to submit their credentials as suitable participants, given that there is a need to limit those selling through auction, to traders who can supply and finance respectable volumes of material.

The auction house would provide tanners with the opportunity to inspect goods prior to purchase and provide an acknowledged grader appointed by the Steering Committee to arbitrate on issues of quality. The auction administration should also be tasked with publishing through the media prices made in each category and the differentials by grade on a daily basis.

This system would ensure that pricing is an open issue and that all participants in the supply chain were aware of the prevailing market conditions and as to the potential value of their products. Provided posters illustrating the primary factors involved in the classification of material by grade were broadly circulated the primary producer and collector would also be aware of the degree of attention required to achieve the maximum return on their product.

3. Recommendations

3.1 Government

- To issue a directive that all hides and skins in Ethiopia be purchased by grade in accordance with The Ethiopian Standards initiated at the first transaction point. That they be traded by grade under the existing mechanisms until reaching Addis Ababa or other centres of tanning, whereupon they would be sold by auction to the tanneries.
- Establish a Steering Committee to deliberate on the issues involved in effecting the transition from current practice to purchase by grade and to prepare the industry well in advance for that change. Ultimately to effect the introduction of the final procurement mechanism.
- Ensure that Extension officers are retained in their field of expertise and empowered to enforce the grading standards and the “purchase by grade” directive.
- Strengthen and enforce the Hide & Skin Regulations

- Reaffirm and enforce the ban on the export of raw hides and skins
- Reconcile local economic factors governing the running of state tanneries with those of the nation. Tanners dissipating overheads through high volume, though satisfying local economic drivers are not necessarily serving most effectively, the national interest if that volume is at the cost of quality. It is medium to top quality product which will attract enhanced foreign earnings. The pursuit of volume will drive up raw price and have a negative impact on any efforts to enhance raw material quality.
- Consider the effect of granting further licences to operate new tanneries. More tanneries will put even greater demand upon raw material supplies with its inevitable effect upon prices, creating a cost burden that only the most efficient and competitive units will be able to afford and finance. Given the constraints currently in place in State facilities such as high volume targets and high manning levels it is unlikely that these facilities will fit into this category.

3.2 Tanners

- Orientate operations towards quality.
- Cease to process reject material.
- Demand improved quality from suppliers.

3.3 UNIDO

- Prepare a dedicated computer program to be used in the monitoring of hide & skin transactions which could be used by other countries within the development zone to provide valuable data on hides and skins. This data then to be collated and used for the future development of the industry.

Part II

1. INVESTIGATION & INTERPRETATION

It was necessary at the outset to establish what standards and mechanisms existed within the industry in relation to the butchering, collection, trading and processing for hides and skins. This involved consultations with the Ministry of Agriculture, the Tanners Association and representatives of the Traders. Followed by field visits to Hidesheds in Ambo, Weliso, Nazret, Debre Zeit, Dila and Yrga Chafe in the company of extension officers from the Ministry of Agriculture. Given the short duration of the investigation it was also essential to initiate certain trials to quantify:

- The status of current material quality.
- The correlation between raw and semi-processed grading.

This allowed realistic value differentials to be established between grades.

1.1 STANDARDS

Although there is in existence quite a sophisticated document elaborating Ethiopian standards for Hides and skins written in 1973 this document is not in current use. Its demise in terms of everyday use is due to two factors:

- 1.1.1 It is a complicated document numerically orientated covering all elements of the industry and as such is intimidating. Although some updating is required mainly in relation to preservation methods, it still remains an excellent document in the event of arbitration because of its objective nature.
- 1.1.2 Skin processors “chasing” volume in raw material were prepared to accept all grades resulting in the practice of buying in the run (declared to be 40% First 50% Second and 10% Third, at an all in price), if allowed to continue this will lead to a further deterioration in quality and an escalation in raw price irrespective of world market trends.

1.2 BUTCHERING

In Ethiopia with few abattoirs resulting in only 2% of kill and subsequently flaying takes place in a controlled environment. Supervision as a tool to improve the quality of operator performance is not practical. This leaves education and financial incentives as the only real alternative. In respect of education it is clear that The Hides and Skins, Leather and Leather Products Improvement Scheme US/ETH/88/100 has had impact not only through the provision of appropriate ripping and flaying knives but in the training it has provided. The majority of parties encountered are aware as to the correct methods of ripping and flaying. I must qualify this by stating that having the skill to carry out a task is only of benefit where there is the will to implement.

1.3 COLLECTION

Hides and skins are collected in the Villages & Weredas by agents acting for or selling to traders who in turn cure and accumulate material for onward sale to larger traders until ultimately the goods reach their final destination the tannery. Right through this chain there is no perceived differential currently being paid in respect of quality and therefore no incentive to exercise care and attention in the handling of raw material. While this practice continues, the probable scenario is that further deterioration in quality will occur.

1.4 PRESERVATION

During visits to the regional hidesheds it was clear that operators were well informed as to the procedures for the preparation and preservation of hides and skins, an ability they were able to demonstrate in the majority of the premises visited. It is clear that Extension officers trained under US/ETH/88/100 have done a reasonable job in difficult circumstances in bringing their training to bear at a level close to the primary producer. However there was evidence that although capable of carrying out their duties, hideshed operatives were not adhering to correct procedure. Furthermore it is unlikely that they will whilst the practice of purchasing in the run continues. Skins and hides arriving at the sheds are not always being processed promptly or properly and deterioration is occurring with consequential loss in quality. But as this deterioration results in no financial loss to the operator, the level of attention is poor.

1.5 TRADING

Hides and skins are traded in accordance with free market conditions in terms of price, but freedom to freely trade is impaired by tanners making advance payments to traders then requiring them to retain goods until required. The movement of goods is regulated and monitored by extension officers from the Ministry of Agriculture. Under the terms of their brief they should grade, (in accordance with Ethiopian Standards) load and authorise transportation of goods to Addis Ababa, providing documentation that stipulates type, origin, grade and quantity. Currently this function has been severely down graded, primarily because tanners are prepared to buy run material and traders are happy to supply in this format, with the result that Extension officer's credentials are ignored and as a force for improvement they are demoralised.

1.6 PROCESSING

The majority of Tanneries including the two largest are state owned and although stated to be autonomous they are encumbered with certain constraints which place them in a less than ideally competitive position. Furthermore the drive for volume would appear to emanate from these constraints.

With the lowering of world trade barriers and Ethiopia's intentions to be more involved in the world market it is essential that the tanning operations are competitive. Therefore it is necessary that they operate as a business mindful of social responsibilities but not driven by them.

1.7 TRIALS

Trials carried out early in the visit established that this “run” referred to earlier in the case of sheep consisted of 15% First 35% Second 39% Third 9% Fourth and 2% Reject, far removed from the declared 40/50/10. These same trials were also used to establish the reasons for down grading hides and skins. A similar distribution was found in goatskins 13/29/35/15/8. and hides with a low percentage of firsts at 9/36/30/18/7

The criteria used in this evaluation was as follows.

The hides and skins were graded by myself assisted by Mr. Abduke Omer, Hide and Skin Expert of Region 14 Bureau of Agriculture using our best interpretation of the Current Ethiopian Standards. Our grading was then verified by the Technical/Quality Manager of the tannery concerned.

After grading a percentage of the hides and skins within each test were individually marked and followed through to pickle or wet blue where they were graded by the senior grader in the tannery concerned.

Under the above conditions we established that the hides and skins falling below grade I (one) were down-graded for visible defects, and that 68% of those were attributable to butchering and hidestore preservation techniques, attributable equally to poor flaying and poor preservation. However it must be understood that in this evaluation we are only referring to visible defects. Latent defects which appear after unhairing will have an even greater impact on the final quality yield. I estimate that raw grading can only account for 35% to 40% of total defects. (Appendix B)

Given these results it is clear that there is room for significant improvement in Ethiopian hides and skins at primary and secondary level. By primary I mean the flaying of hides and skins and secondary the preservation storage and transportation.

The deterioration in material quality can be stemmed and reversed by the practice of buying by grade with differential pricing between grades but initiated at the very beginning of the supply chain “the primary producer”.

2. DISCUSSIONS

During discussions with the concerned parties when it was put to them that purchasing by grade was the only clear manner by which quality could be improved, there was broad support for this philosophy. However there was equally broad concern and apprehension as to the mechanism of implementing such a procedure for fear of being disadvantaged.

It was evident therefore that the critical aspect in adopting a purchase by grade procurement plan is The mechanism for implementation.

For a procurement system based on quality to succeed it would clearly have to fill the following criteria.

- Seen to be fair to all parties involved in the supply chain.
- Clearly explained well in advance of implementation.
- Have a stabilising effect on prices.

The issues involved are numerous and complex and given the limited duration of my involvement it is unlikely that I can cover all the parameters. This limitation, combined with the fact that to implement any new system or procedure there has to be a driving body, makes it imperative that a **Steering Committee** is formed, tasked with effecting the transition from current practice to purchasing by grade.

The issues that need to be addressed in order to implement a procurement system that is acceptable to all and therefore sustainable are listed below and elaborated subsequently. They are also the issues concentrated upon in the seminar held at the Ministry of Agriculture in Addis Ababa to which all concerned parties were invited to contribute. The feedback generated during this open forum has helped in the development of the proposal outlined in this report.

- **The Steering Committee**
- **Standardised Grading**
- **Price differentiation**
- **Pricing**
- **Implementation**

PART III

OBJECTIVE OUTLINE, PROPOSAL & INPUTS

1. Objective

To propose a workable mechanism which will enable the Ethiopian leather industry and the Ministry of Agriculture to introduce a hides and skins procurement system based on quality.

2. Outline Proposal

- That Hides & Skins in Ethiopia be purchased by grade initiated at the first transaction point and that they be traded by grade under the existing mechanisms until reaching Addis Ababa or other centres of tanning whereupon they would be sold to the tanneries by auction.
- That the auction system should be self financing and established within a warehousing system that is adequate to store and inspect goods prior to sale and located in consideration of public health and the environment.

3. Inputs

To accomplish this objective there are several features that need to be put in place. I will deal with each item separately elaborating the requirements and objectives in each case.

- **Steering committee**
- **Standardised grading**
- **Price differentiation**
- **Pricing**
- **The Auction**

3.1 Input - Steering Committee [*for Hide & Skin Development*]

For any new system or procedure to be implemented successfully, there has to be a driving body that is empowered to see it through to completion. Given the importance of this industry to the Ethiopian economy and the fact that some of the requirements are going to be difficult to implement without Government backing, it is essential that The Committee is chaired by at least an appointee from the Prime Ministers Office. The remainder of the Committee should consist of representatives from the Tanners Association, the Traders Association and the Ministry of Agriculture. The Committee should be restricted in size but have the authority to second experts as required it could in fact be a reconstitution of the Hides & Skins Committee.

3.1.1 The Objectives of The Committee

- ◇ To effect the smooth transition to procurement by grade for Ethiopian Hides & Skins.
- ◇ To arbitrate on the issues arising from the policy of procurement by grade.
- ◇ To identify areas of the industry requiring development and training and to lobby for the appropriate resources to satisfy the needs of those areas.
- ◇ To further develop the processing of Ethiopian Hides, Skins and Leathers and advance the marketing of the industry's products.
- ◇ To improve communication and operating procedures within the Industry in order that the full potential of this replenishable raw material may be realised.
- ◇ To act as a watchdog for the industry by being in a position to advise Government Legislators as to the needs of the industry in order that provision be made for growth and development.

3.1.2 Tasks

To effect the smooth transition to a purchase by grade system there are several issues which will have to be addressed by the committee well in advance of the launch of the program . The initial issues that need to addressed are as follows:

- Seek the reconfirmation of the ban on the export of hides and skins
- Seek of the Government a directive that hides & skins purchased by tanneries must be procured through an auction.
- Agree and announce an implementation date.

3.2. Input - Standardised Grading

In any quality based operation the standards are the corner-stone upon which the entire system is built. In the case of hides and skins the standards referred to are the grades of hides & skins. Grading must classify material in terms of its quality and thereby represent the relative value of a hide or skin.

Ethiopia has in place (although lapsed in every day use) Grading Standards which are ratified by Parliament and enforceable under the Hide & Skin Regulations Legal Notice 25. This document can in its current form be used as the basis for grading hides and skins. It is universally understood by Collectors, Traders, Tanners & the Ministry of Agriculture Extension Officers. Although it needs to be updated, the main revisions are required in the area of preservation rather than grading. (Appendix D.)

Its one weakness is that it is unlikely to be known of, or understood by the primary producer. Yet it is essential that this sector of the supply chain is made aware of the factors that are instrumental in the classification of hides and skins by grade and as to the relative values of the various grades. Without such knowledge this sector is not in a position to take the necessary action to improve the quality of their work or therefore to be incentivised.

It is for this reason I have prepared Pictograms (following the same principle used in Document US/RAF/88/100, Output 4, Guidelines for Grading of Hides and Skins by Quality) which broadly illustrate the critical issues involved in the classification of hides & skins by grade, and are based on the Ethiopian Standards. The same pictograms can be used simultaneously to illustrate the relative values of the grades. These pictograms are designed that they may be produced in poster form and as such used to reach the remotest locations in the country's catchment areas for hides & skins. I emphasise they are not a change to, or an addition to, the Ethiopian Standards but merely a communication device, to ensure that the vital first operatives in the supply chain are aware of the objective and of the benefits arising out of achieving that objective.

3.3 Input - Price Differentiation

To give integrity to the grading, values need to be assigned to each category which are a fair representation of the material's worth. In a free market the value of hides & skins will vary with supply and demand but the relative value of the different grades should remain reasonably constant. It is for this reason combined with keeping the system as un-complicated as possible, that I suggest a price be struck for the premium grade in each product category and that the price for all other grades be established by calculation as a percentage of that Premium Price. What the differential between grades should be, is really a question for the industry to establish. For guidance I have calculated that a reasonable ranking for hides sheep and goatskins would be First Grade = Prime Price, Second Grade = 85%, Third Grade = 55% and Fourth Grade = 15% respectively of Prime Price. Rejects have no value, by definition they should not be collected or traded. This ranking is also relatively close to that which is found in product elsewhere in the world.

The calculated percentage differentials were arrived at by a two stage process.

- 3.3.1. To establish that there is a correlation between raw and semi-processed grading. The results of early trial work seen in Appendices B.3 & B.4, verify that there is a correlation, a feature that is also supported by the logic that skins or hides graded as third quality in the raw will not as a result of processing attain a higher grade.
- 3.3.2. Having established the correlation, one can then take the current selling prices in pickle and wet blue for the top four grades in sheep, goat and hides adjust for the cost incurred to process to that point then calculate each as a percentage of the First Grade. (see appendix B) Then superimpose those differentials over the top four grades of raw material.

3.4 Input - Pricing

One of the main issues that has plagued the industry in Ethiopia over the past few years is the pricing of raw material. Since the demise of the National Leather & Shoe Corporation there been no effective pricing mechanism and consequently no open declaration of price. For the market to be truly free and open, all parties must be aware of the prices being paid at any time. This can be achieved by tanners openly declaring the prices they have paid or a regulatory body dictates price, the former is unreliable and the latter in contradiction with the free market. It is therefore that I am suggesting an alternative mechanism The Auction as a reliable and free mechanism to establish price.

3.5. Input - The Auction

In taking the Auction route for the final transaction prior to tanning, there are several advantages for the Industry but only if the auction is not circumvented by private deals and there is an interactive price mechanism which avoids collusion in order to effect significant downward movement in price. The supply chain should be cushioned against a dramatic fall in price otherwise significant losses could be incurred by trading parties.

- Circumvention can be avoided by an enforced Government directive that tanners must buy through the auction house.
- Manipulation of price can be averted by establishing a reserve price on the day, which is calculated as a percentage of the price made at the previous auction.

By introducing the auction at the end of the supply chain one is making use of all the existing infrastructure and maintaining the expertise of all participating bodies thereby minimising the cost of implementing a procurement policy based on grade.

Tanners, the consumers of hides and skins need to be able to source within reason the material they require to satisfy their orderbooks. The Auction House will provide the opportunity to inspect prior to purchase.

As outlined earlier one of the main issues that has plagued the industry in Ethiopia over the past few years is the pricing of raw material. Since the demise of the National Leather & Shoe Corporation there has been no effective pricing mechanism and consequently no open declaration of price. While the suppliers of raw material have been happy to satisfy the Tanners appetite for volume the result has been an upward pressure on raw material prices, the erosion of the Tanners margin and the deterioration of the quality of the material mix, all irrespective of the world market. The Auction system ensures that actual prices are known.

3.5.1. Location

The initial Auction House should be set up by The Steering Committee in Addis Ababa through the purchase or lease of a warehouse suitable to store, inspect and auction hides and skins to meet the needs of the tanneries. In establishing a location for the Auction House there are several factors that should be borne in mind. Ideally the premises should be located away from residential areas in an industrial development zone. Adjacent suitable sites could be made available to traders who would be encouraged to relocate their operations thus centralising the industry bringing environmental and social benefits to the remainder of the city.

3.5.2 Administration

Initially to be set up by the Steering Committee who should bring in a professional auctioneer to head up the team, then, when established and running, hand it over to an Administration Board or Trust to be run as a self financing body recovering their costs through levies paid on all transactions. This operation would be the pilot, upon which other such centres could be established as the needs of the industry demand. In the event of further auction houses being established their location should be considered in the context of the local availability of raw material and proximity to tanning operations. As it is in the financial interest of the auction house to ensure that all final transactions go through the auction the responsibility of monitoring tannery purchase against tannery output should also lie with this body.

3.5.3 Finance

The initial establishment of the Auction house may have to be facilitated in terms of cost by the Government but with a capital recovery plan based over 3-4 years. Without this facility it could be a protracted exercise to get the system operational. The initial outlay for a suitable premises of 35,000 sq. feet would be in the region of \$600,000 - \$650,000

3.5.4 Participants

With an auction system there should be a limit to those who can trade through the Auction house in terms of the sellers. The current practice of some tanners making advance payments to traders is in effect tying both parties and restricting free trade. The Traders who may trade through the Auction House should be limited and certified, based on their ability to supply respectable quantities of material in good condition. They must be in a position to finance their business and be seen by the extension officers to be operating with acceptable procedures and premises. The granting of a licence to trade through auction can be used as a tool to improve the handling practices within the industry and used to assist in the drive to improve the quality of material reaching the tanneries. Traders who have to finance their operations, will by virtue of cash flow constraints be less inclined to hoard goods and more inclined to move material swiftly. This in turn could accelerate collection, preservation and transportation bringing benefits in terms of quality and market stability.

3.5.5. Monitoring

Monitoring transactions in terms of origin, type, quality, quantity and price is of importance in order that data may be collated. The data provided by such monitoring will help not only to ensure tanners purchase through auction but will also provide extremely valuable statistics upon which the Steering Committee may base their strategy for further development.

Because of the complexity and the amount of data to be recorded in the case of each transaction, it should be computer based with a specialised program specifically written for the task. The expertise for this may have to be provided by UNIDO, who could ensure that the system created could be used in other countries coming under the Regional Africa Hides and Skins Leather and Leather Products Improvement Scheme.

4. Implementation

At this point one has to consider whether to implement on a regional trial basis or to take on the entire country right from day one. I strongly recommend the latter. A regional approach may allow sectors of the industry to advantage themselves by moving goods within the country and if that movement were to be out of the pilot zone the system could be collapsed very quickly.

For the implementation to be efficient and effective it is essential that all the concerned parties are clear as to the objective, the mechanism and the time scale. Public support for the project would also make the path smoother, to this end the program should be given publicity throughout the national media, to raise the profile of the industry in people's minds. With broad public support it is much more difficult for any party with vested interest in the status quo to create problems.

Timing as mentioned above is important. The industry must be advised in advance as to what is planned and sufficient time given for all parties to prepare themselves for the event.

The following section of this report outlines a sequence of steps that could be considered by The Steering Committee in their deliberation on the issues involved in introducing a procurement policy for Ethiopia based on quality.

5. Implementation Schedule

Step 1.

Establish The Steering Committee and publish the reasons for its formation and its objectives, ideally with a time scale for implementation that all parties may prepare themselves for the event. This can be achieved through the media and supported by posters containing the Pictograms (Appendix A) illustrating the grades and the differentials in price.

Step 2.

Seek reconfirmation that the ban on the export of raw hides and skins will continue and be enforced. It is essential to protect the industry during transition.

Step 3.

Seek to have the penalties under the Hide & Skin Regulations strengthened, that they represent an effective deterrent to any party deliberately attempting to misrepresent material or failing to conform to the practice of "Purchase by Grade". The suspension of a traders licence to operate would be the ultimate deterrent.

Step 4.

Arrange for the purchase or lease of premises suitable for the storage, inspection and auction of hides and skins. Initially this should be in Addis Ababa and subsequently in other primary raw material producing or tanning locations, if the volumes can support a viable auction house. Appoint a board to administer the auction house and to raise levies in respect of transactions to finance the auction system.

Step 5.

Seek a directive that Tanneries purchase all hides and skins through an Auction. Without such a directive which needs to be monitored the auction system could be circumvented which could in turn lead to its collapse.

Step 6.

Confirm to all interested parties that from a date to be specified, all hides & skins will be purchased and sold by grade and that the grade of an individual hide or skin will be established in accordance with the Ethiopian Standards for Hides & Skins. That the very first transaction in the raw material supply chain should result in the hide or skin being graded in the raw state and payment made in accordance with grade at the differential announced.

Step 7.

Arrange through the Ministry of Agriculture that all extension officers are briefed in respect of the changes planned and informed as to their responsibilities in the operation. These responsibilities would be to ensure that:-

- All hides and skins are graded in accordance with Ethiopian Standards.
- All purchases are made by grade
- All goods are shipped with the correct documentation clearly stating Type, Grade, Quantity and Origin.
- Any breaches of procedure were reported to The Committee who would be empowered to investigate. In the event of an upheld complaint the Ministry of Agriculture would be asked to sanction the guilty party in accordance with the strengthened hide & Skin Regulations.
- Make provision that in the event of local difficulties, concerned parties an/or extension officers have the right to appeal to The Committee for support, advice or arbitration (Appendix D)

Step 8.

Arrange to have at the disposal of the Steering Committee acknowledged graders, who can be appointed to arbitrate in matters relating to the grade of goods, in the event of two parties failing to come to an accommodation by their own endeavours.

Step 9.

It must be made clear to all parties that it is the responsibility of the buyer to ensure that his purchase conforms to the manifest within a 10% tolerance. (for operator variation) Any inspection made should at minimum be 10% of the consignment. If there is a dispute between parties that cannot be resolved by the parties themselves then there is the arbitration service provided by the Committee.

Step 10.

Invite traders to apply for a permit to trade through an Auction House laying out clearly the terms of association, but giving time for those requiring it, to put their affairs in order.

Step 11.

Create and distribute posters based on Pictograms (see Appendices A.2, A.3)

Step 12.

Provide computerised monitoring of transactions in order that trends in quality volume and price may be monitored. This would be a function of the Auction House Administration and would also compare tannery purchases with throughput. It may be necessary for random checks to be made on goods arriving at tanneries to establish the purchase was through auction.

Step 13.

Make arrangements to publish weekly the auction prices. Ideally this should indicate current week and the immediate preceding three weeks in order that the direction of market movement may be ascertained.

Step 14.

Having implemented the "Purchase by Grade" system the Committee should continue to operate as a watchdog for the industry with a particular brief for the longer term requirements and development of the industry.

- To keep Government Legislators informed as to the needs of the industry that provision may be made for its development and growth.
- To oversee the industry in broad terms such as identifying the training needs that will be required for the future.
- To fine tune the mechanisms already in place thus ensuring that procedures and practices develop and reflect the best practices of the time.

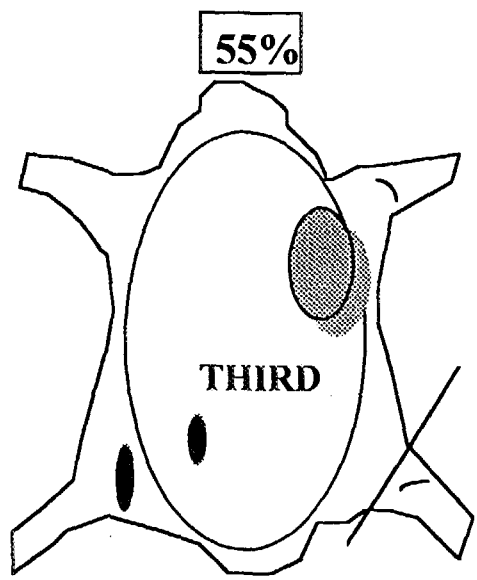
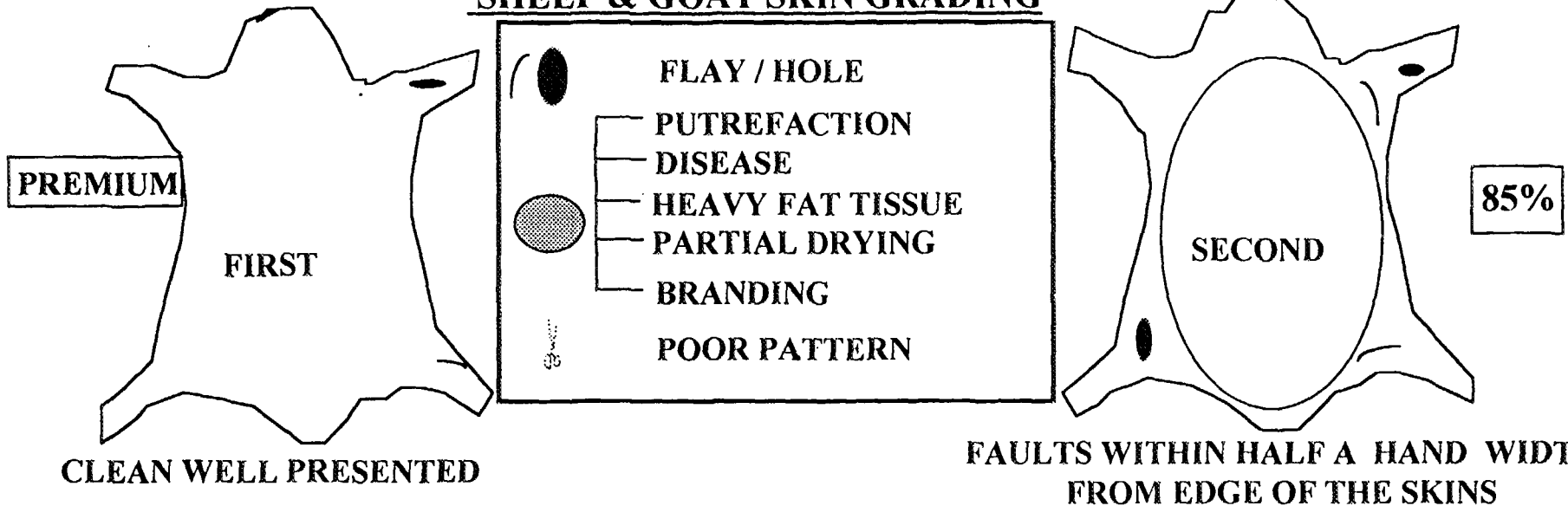
Pictograms

Pictograms (Appendices A.2 & A.3) are designed as a communication aid which when produced in poster form and in the appropriate language will illustrate to the initial provider of hides and skins the factors involved in attributing grade. Given this information he may assess the degree of care required to attain the maximum return from his raw material. The percentages attached indicating the suggested relative value of each grade that he also knows approximately the value of what he has for sale.

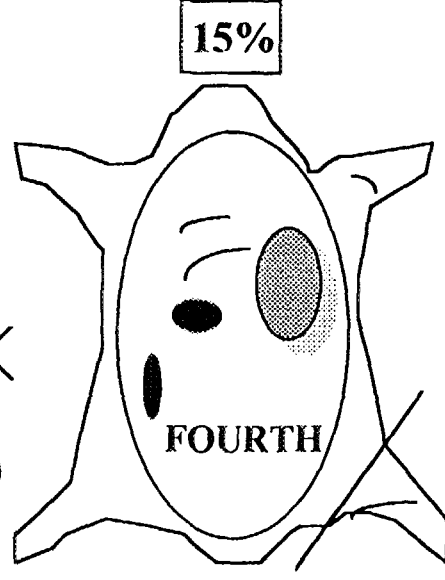
The Pictograms illustrate 4 grades in line with the Ethiopian Standards plus a reject to which no value is attributed. It is imperative that the reject ceases to be collected or traded. To include a reject in purchasing is to give tacit support to poor workmanship and negates the validity of any grading system. This category by definition is unsuitable to process and should not be accepted in a quality based system.

The illustrations in the pictograms follow a similar mechanism to that used in Output 4 **Guidelines for Grading of Hides and Skins by Quality**, produced under Hides & Skins, Leather and Leather Products Improvement Scheme **US/RAF/88/100**

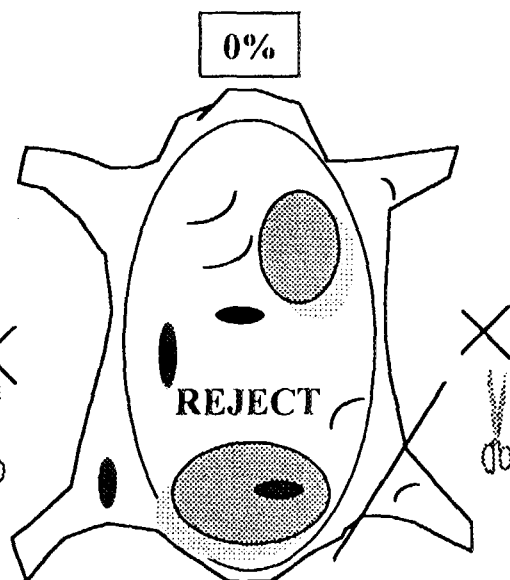
SHEEP & GOAT SKIN GRADING



**TWO MAJOR DEFECTS
IN MAIN PANEL
OR BAD SHAPE**



**MORE THAN TWO MAJOR
DEFECTS IN MAIN PANEL
BETWEEN 50-60% USABLE**



**FOUR OR MORE MAJOR
DEFECTS IN MAIN PANEL
LESS THAN 50% USABLE**

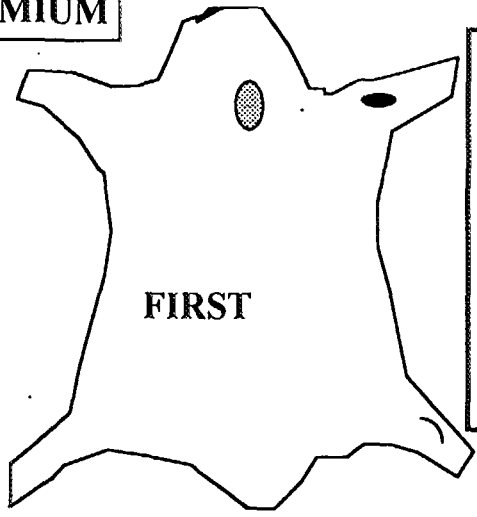


Appendix A.2.

PREMIUM

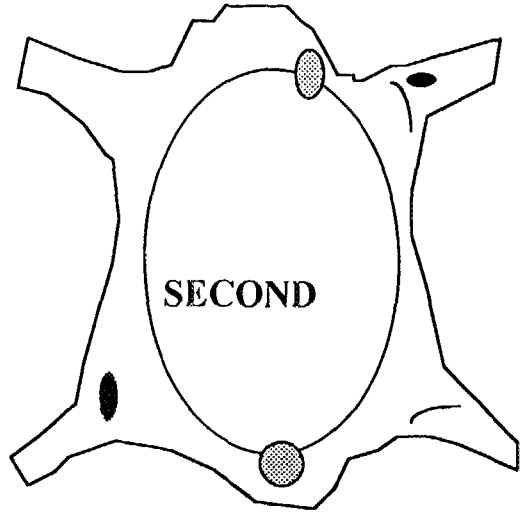
RAW HIDE GRADING

85%



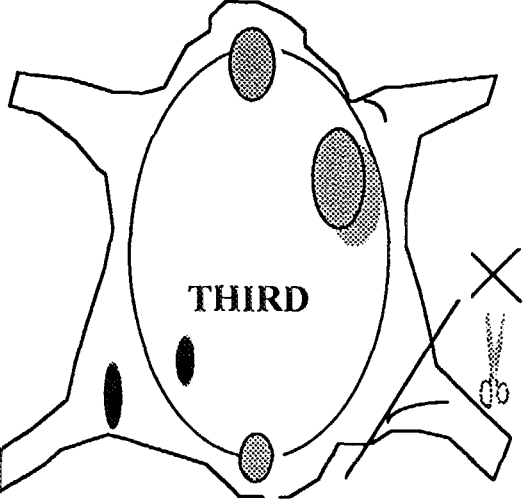
CLEAN WELL PRESENTED

	FLAY/HOLE
	PUTREFACTION
	DISEASE
	HEAVY FATTISSUE
	PARTIAL DRYING
	BRANDING
	POOR PATTERN



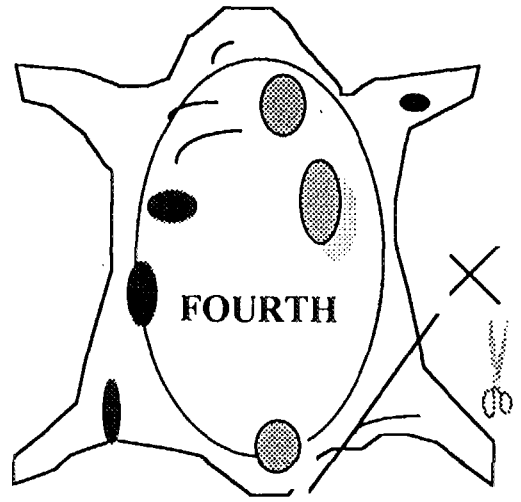
DEFECTS WITHIN TWO HANDS WIDTH FROM EDGE OF THE HIDE

55%



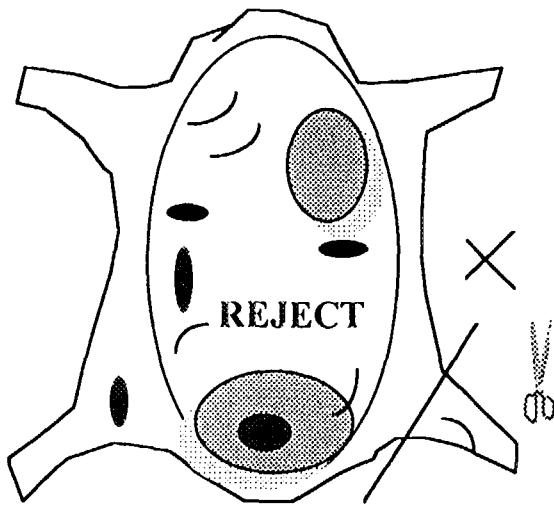
TWO MAJOR DEFECTS IN MAIN PANEL OR BAD PATTERN

15%



MORE THAN TWO MAJOR DEFECTS IN MAIN PANEL BETWEEN 50-60% USABLE

0%



FOUR OR MORE MAJOR DEFECTS IN MAIN PANEL LESS THAN 50% USABLE

CORRELATION IN GRADING

In the graphs Appendices B.3 & B.4 it may be seen clearly that there is a correlation between raw and semi-processed grading in that the distribution curves are quite close although in the case of the latter the distribution is displaced 1.5 categories downward with the emergence of latent defects, primarily arising from disease and scarring not visible in the raw state.

It is therefore valid and fair that the relative values attributed to the raw material should be derived from the selling prices being achieved by the tanners in the sale of their product.

PRICING ISSUES

When the auctions have become established it will be possible to publish the weekly or daily rates being paid for each commodity, but initially in order to indicate the approximate levels The Committee will have to strike a starting price for each category. In this, great care must be exercised to ensure that the price is fair and that the average price per skin is not seen to have changed dramatically overnight, otherwise parties may be wrongly disadvantaged.

PRICE DIFFERENTIAL

The differential set between grades should be expressed as a percentage of the premium grade.

- a) to reinforce the significance of premium quality by establishing it as the driver for the mechanism.
- b) whereas the absolute value of the material will vary with supply and demand the relationship between grades should remain relatively constant.

By taking the tanners international selling price as the starting point, one is basing the system on the realisable value of the material in its semi processed state. Work however needs to be carried out to arrive at this point and in order to arrive at the base value of the raw material itself, one needs to adjust for the working costs. (see Table below) Having made that adjustment one can now express the value of all grades as a percentage of the First.

GRADE IN PICKLE	FIRST	SECOND	THIRD	FOURTH	FIFTH	REJECT
PRICE PER DOZEN		\$85.00		\$55.00	\$30.00	\$0.00
EXTRAPOLATE THE THIRDS BACK LESS WORKING COST OF \$12 PER DOZ.		\$94.00	\$80.00	\$55.00	\$30.00	\$0.00
RELATIVE % OF VALUES		100%	83%	52%	22%	0%
TRANSPOSE TO RAW	100%	83%	52%	22%	0%	
* ADJUSTED	100%	85%	55%	15%	0%	

Because of the very low percentage of Firsts and the relatively low percentage (approx. 10%) of Seconds both are currently grouped with the Thirds as a selling grade. But to establish four categories covering the bulk of material produced, I have extracted the First & Second grade combined, as the Primary category and calculated its value and that of the Third, expressed above in *italics*.

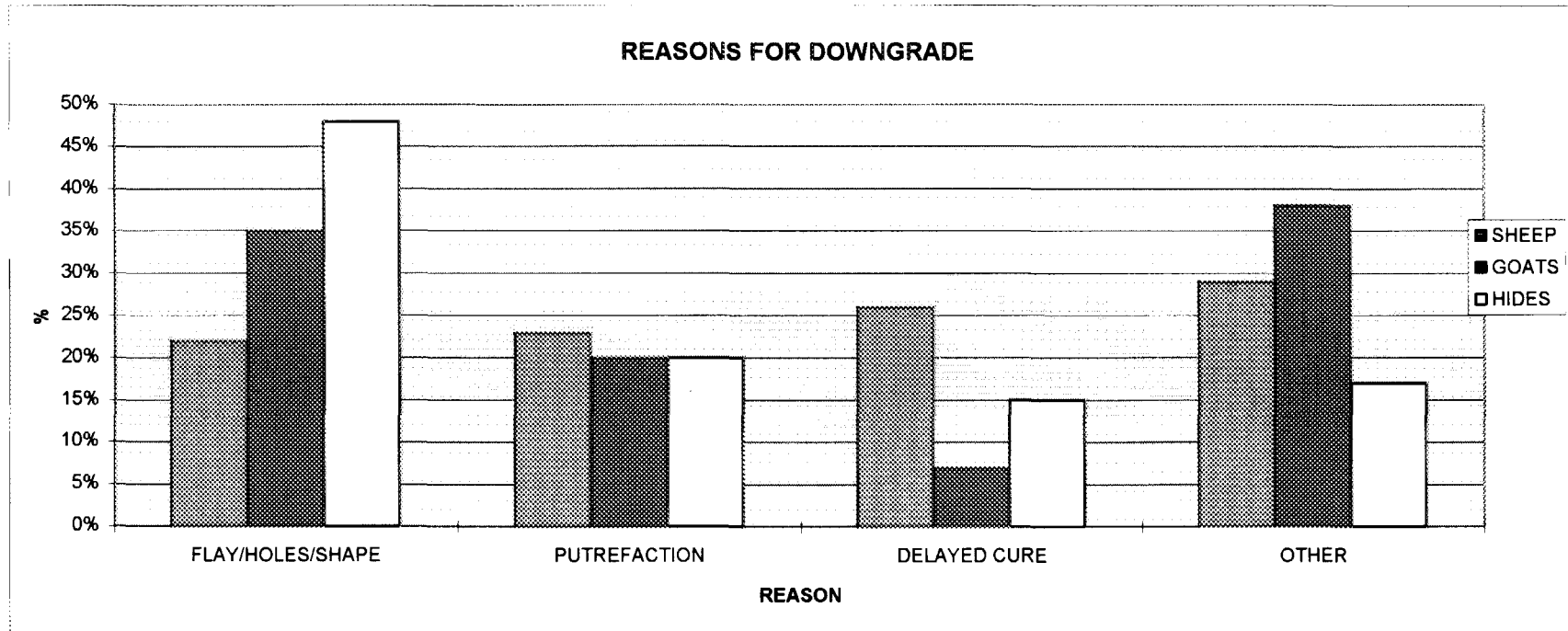
From the value of each of the four semi-processed grades, (less working cost) one can establish a reasonably accurate value for the raw material. Values which can then be used to rank all raw grades as a percentage of the primary grade

* The adjustments made are rounding, except in the case of the fourth. Some material is rejected outright and never processed and an allowance needs to be made for this. One has to assume it was originally in the fourth category and is now Reject.

For Hides and goatskins the same procedure holds valid and produces a similar value ratio.

REASONS FOR DOWN GRADING HIDES AND SKINS

	FLAY/HOLES/SHAPE	PUTREFACTION	DELAYED CURE	OTHER
SHEEP	22%	23%	26%	29%
GOATS	35%	20%	7%	38%
HIDES	48%	20%	15%	17%

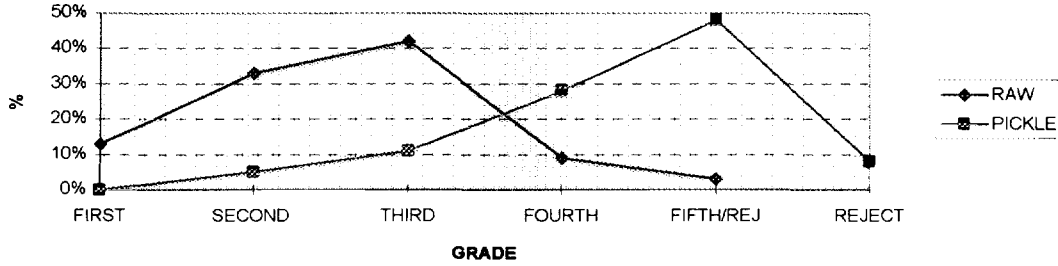


RAW GRADING PLOTTED AGAINST SEMI-PROCESSED GRADING

GRADING FIGURES SHEEP

GRADE	FIRST	SECOND	THIRD	FOURTH	FIFTH/REJ	REJECT
RAW	13%	33%	42%	9%	3%	
PICKLE	0%	5%	11%	28%	48%	8%

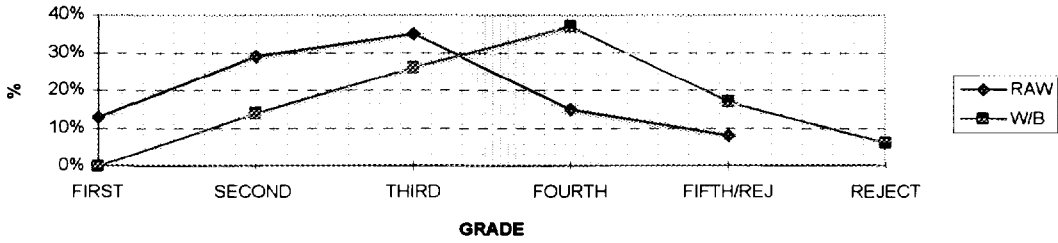
RAW SHEEP GRADE DISTRIBUTION



GOATSKINS

GRADE	FIRST	SECOND	THIRD	FOURTH	FIFTH/REJ	REJECT
RAW	13%	29%	35%	15%	8%	
W/B	0%	14%	26%	37%	17%	6%

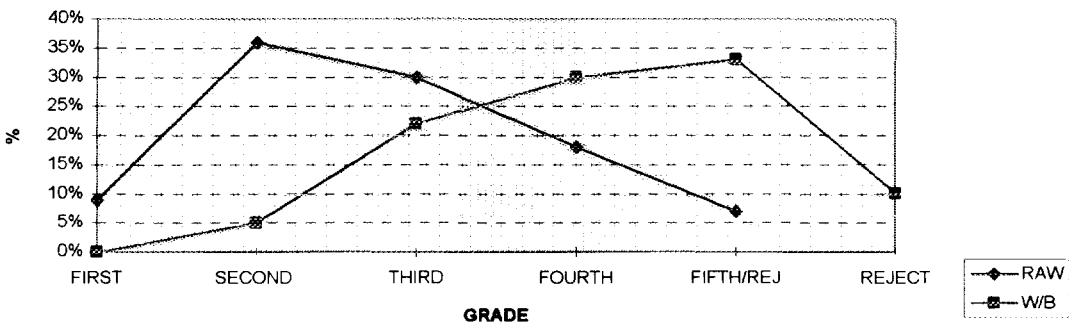
GOATS GRADE DISTRIBUTION



HIDES

GRADE	FIRST	SECOND	THIRD	FOURTH	FIFTH/REJ	REJECT
RAW	9%	36%	30%	18%	7%	
W/B	0%	5%	22%	30%	33%	10%

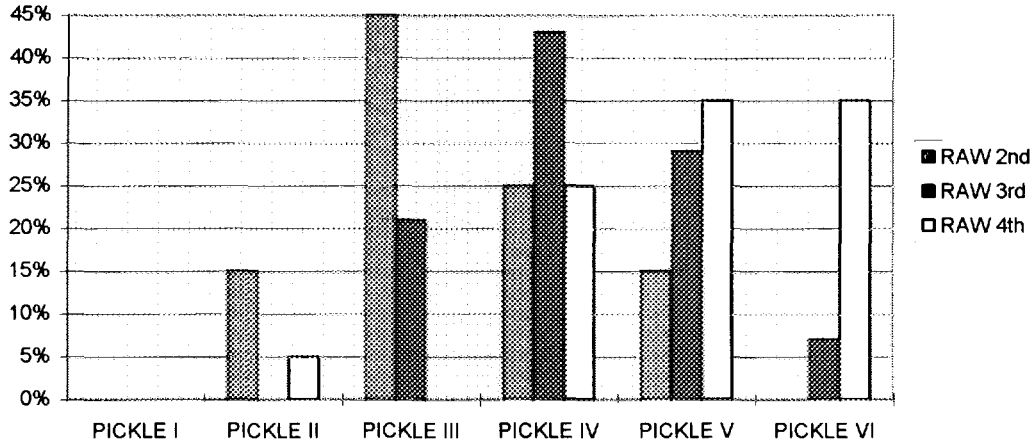
GRADE DISTRIBUTION HIDES



ACTUAL SKINS AND HIDES IDENTIFIED IN SEMI PROCESSED STATE

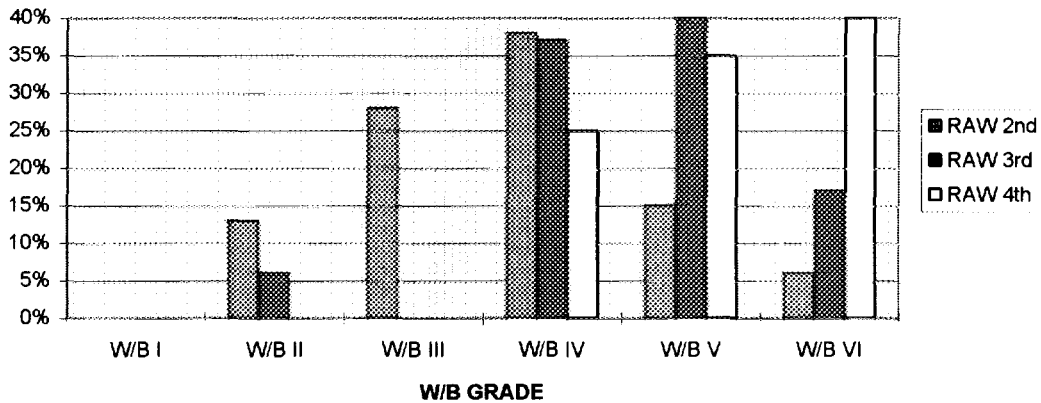
	PICKLE I	PICKLE II	PICKLE III	PICKLE IV	PICKLE V	PICKLE VI	
RAW 2nd	0%	15%	45%	25%	15%	0%	100%
RAW 3rd	0%	0%	21%	43%	29%	7%	100%
RAW 4th	0%	5%	0%	25%	35%	35%	100%

RAW AGAINST PICKLE GRADES



	W/B I	W/B II	W/B III	W/B IV	W/B V	W/B VI	
RAW 2nd	0%	13%	28%	38%	15%	6%	100%
RAW 3rd	0%	6%	0%	37%	40%	17%	100%
RAW 4th	0%	0%	0%	25%	35%	40%	100%

RAW TO W/B HIDES



THE EXTENSION OFFICERS

The Ministry of Agriculture extension officers have for several years been bringing improvements to the collection of hides and skins throughout Ethiopia. Their activities have resulted in significant reductions in the creation of rejects arising from ground drying and smoke cure. Many of these officers are highly skilled and need to be retained in their areas of expertise.

With the advent of buying in the run the function of the extension officer has been severely undermined he has not had the authority or the backing to achieve his objectives. Furthermore there are indications that since regionalised autonomy some of these highly trained and skilled officers have been assigned to other duties. In a procurement by grade policy it is essential that these officers are reassigned to their original duties, re-affirmed in positions of authority and given the necessary backing and support to do their job effectively.

Their function is not going to be an easy one as they have dual roles. One as enforcers of the policy, the second to advise help and encourage suppliers of hides and skins. Their role as trainers particularly in flaying and preservation techniques for hides and skins will need to continue, a function which will become more effective once there are incentives paid for improvements made in terms of quality of work produced.

ETHIOPIAN STANDARDS

The Ethiopian Standard for hides & skins produced in 1973 and compulsory since 11 October 1973 under Legal Notice No. 433 of 1973 is an excellent and comprehensive document covering the presentation, preservation, grading, designation and storage of hides and skins. In respect of the classification of material by grade the methodology is numerically orientated and therefore definitive and as such an excellent tool in matters of grade arbitration.

Although established 23 years ago and accurate in respect of material grade classification, this document requires updating in certain areas primarily in the procedures for preservation of skins.

1. Method of Presentation.

- 1.1 The document although accurately describing the method for trimming fore and hind shanks, fails to illustrate the same position in the diagram but suggests that they be trimmed of at a point well above the knee joint.

2. Preservation

- 2.1 Current practice in Ethiopia is to salt cure sheepskins and an increasing proportion of goatskins, a method of preservation not included in the Standards excepting that of stack salting for hides. As the methodology for salting skins differs from that of hides this procedure needs to be incorporated into the Standards.

The procedure should cover the preparation of the skin ensuring that it is clean and completely opened out then placed on an inclined slatted table whereupon sufficient salt is applied and rubbed in over the entire flesh surface. On completion of this procedure the skin should be folded in on itself flesh to flesh with the fold running the length of the backbone ensuring that no areas of flesh are exposed. Treated skins should then be stacked in accordance with grade on a slight incline to allow fluids to drain freely from the stack. After a 24 hour drain period skins should be palletised for storage in accordance with grade.

- 2.2. Drysalting is a procedure documented in the Standards but rarely practised. As a preservation technique it is one of the less desirable procedures as it is a combination technique one or both of the elements is usually found wanting with less than optimum results. For this reason I suggest it is struck from the Standards.
- 2.3. Under section ES B.J6.096 Pickling the fellmongering section needs to be updated, in its current form it is very scant in respect of the delimiting procedure and fails to mention the process of bating prior to pickling. These procedures need to be elaborated in line with current best practice. With further research I can provide this detail.

3. Grading Hides

- 3.1 The breed of cattle indigenous to Ethiopia is the Zebu which has a hump located along its backbone at the base of its neck this distinction results in the need to side all hides during processing. Consequently defects centred on the backbone such as small holes or flay may not have as profound an impact as those located in the main body of the hide and therefore recognition of this feature should be allowed for in grading.

4. Designation

- 4.1 In the preparation of orders and in commercial and technical documents the standards prescribe a method of marking hides and calfskin's which is elaborate and currently not practised most probably because of its complexity. The first set of characters identify the hide as Abattoir or Caravan, the second set the method of preservation, the third whether hide or calfskin, with the final two numeric codes identifying weight and grade. I believe this could be simplified as follows: Only mark abattoir skins with the prefix "A" the method of preservation is obvious to the purchaser and does not need to be indicated nor does hide or calfskin as this may be determined from its size. The digital markings indicating mass and grade remain valid.

5. Mass

- 5.1 For hides the existing system of assessing mass by weight is perfectly acceptable, however for skins there are too many parameters that may effect its weight and thereby misrepresent its value. Leather from skins is sold by area therefore this measure of mass is more appropriate in categorising raw skins. In the raw state broad categories are adequate and those in the standards for the classification of pickle size would be perfectly adequate Small, Medium and Large.

I would emphasise that in its current form the Ethiopian Standards for grading hides & skins is perfectly adequate and the suggested alterations should not be considered as essential to the introduction of a purchase by grade system but merely an updating of the document. Further updating will be a requirement in the future as the industry develops new and improved methods and is an issue that should come under the auspices of the Committee for the development of hides & skins

COMMENTS ON THE INDUSTRY

As mentioned in the introduction Ethiopia has a major natural resource in its raw hides and skins capable of being a major source of foreign income, provided it is developed and managed carefully. Tanning facilities are well equipped and have developed in technical know how to an advanced state as far as tanning, with a growing expertise in the finishing out of tanned leathers for local consumption and export.

The current ideology and pursuit of volume has however not helped the tanneries or the industry generally. It has put pressure on the supplies of raw hides and skins which in turn has pushed up raw price and acted to place quality in a less than positive perspective. If the quality of material preparation and handling is to improve, the consumers, i.e. the tanners must make a greater issue of this matter and demand of their suppliers the quality they require, an objective that will never be accomplished while an appetite for volume persists.

If tanneries can orientate themselves towards quality there are many advantages to be gained:

1. They will automatically act to drive up the quality of raw material generally.
2. The release of capital currently employed to finance large stock volumes of reject grade semi-processed material.
3. It would reduce Expenditure on capital equipment and increasingly more expensive imported chemicals being employed to process low grade material the return upon which is dubious and at best erodes the margins achieved on the better qualities.
4. I estimate that between 70-75% of the costs incurred by tanneries can be attributed to raw material, the remaining costs are primarily variable, given this ratio volume should not be the driving factor.
5. It is a matter of time before Ethiopia is forced to adopt an environmental policy in respect of tanning operations which is going to add a significant cost burden to these facilities, a cost that will further marginalize the processing of low grade raw stock.

It is probable that within two years unless quality becomes the driving force within the industry that tanneries instead of being cash generators may need to be subsidised.

I would also emphasise that in the context of current policy to grant numerous licences to operate new tanneries, there will be even greater demand upon the raw material supplies with its inevitable effect upon prices, prices that only the most efficient and competitive units will be able to afford and finance. Given the constraints currently in place in Government facilities such as high volume targets and high manning levels, it is unlikely that these facilities will fit into this category.