



False dawn or real sunlight?

Vision for Africa: 'A world in which African leather and leather products are seen by local consumers and by consumers in developed countries as having the best quality, design and value for money'.

John Booth, when head of the Booth Group in the mid 20th century, used to enjoy describing how "every developing country wants its own airline and its own tannery" and how Booths were part of that latter strategy with involvement in countries such as Nigeria and Kenya. For 100 years, since 1860, Booths was one of the largest and most globally spread tanning businesses in the world. Despite investing heavily in Africa, financially and emotionally, by the 1970s the difficulties of African politics and of simply doing business in that continent had forced them to pull away and Booths retreated back to their UK base and into a slow decline.

What has changed

Three decades later and we ask what has changed? Reading the recently published *A Blueprint for the African Leather Industry*, a development, investment and trade guide for the leather industry in Africa prepared by UNIDO and funded by the Common Fund for Commodities (CFC), the answer appears to be not a lot. Certainly the countries of northern Africa, those bordering on the Mediterranean, have built a good business based on exporting leather products, and by working with some of the international brands. South Africa seems to have been on an endless cycle of restructuring but has got a strong industry today which is largely dependent on the automobile industry.

Taking Africa as a whole, good intentions do not appear to have been enough to build the leather industry the continent should expect. As the Blueprint puts it "The African leather supply chain has not kept pace with the substantial growth in the production of leather and leather goods in other developing countries". It goes on to say "even the increase in domestic African demand, still modest, is satisfied mainly by either cheap imports from other developing countries, like China, or by second hand goods from developed countries". An incredible 73.3% of all footwear sold in Africa is imported.

A glance at any international newspaper shows us headlines of an Africa in need of help, a continent where faster development and better education are the twin factors needed to avoid failed states, corruption, and other problems that will increasingly spill over into the rest of the world.

The leather industry is one area

which should be able to be a big help. The report highlights that the raw material is readily available and a renewable resource, and the leather industry value chain offers many areas of high labour content with low investment costs.

Africa has 20% of the world's cattle, sheep and goats but problems in collection reduce that to less than 15% of the world output of hides and skins. In the last fifteen years of the last century Africa's share of world trade in raw material and its share in tanning declined significantly (see Table 1).

According to the report the leather and allied trades should be able to sustain over 4% of manufacturing added value across the continent and in Egypt it is already at 8.3%, and Ethiopia, the location of the next Meet in Africa trade show this October, it constitutes an amazing 74%. The many problems that Africa faces (see Panel 1) constitute a formidable list, and it is interesting that no mention is made of AIDS, which for much of Africa means a shortage of low cost labour for many years to come.

Reports of this sort in recent years have tended to focus on two fashionable trends, local industrial clusters, and the value chain. This one has a focus on Value Chains, on which the primary author Teresa Salazar de Buckle, CFC and UNIDO Expert, has written before. She breaks the chain into four stages:

1. Hide and skin recovery and collection
2. Tanning
3. The manufacture of leather products
4. The marketing of intermediate and end products

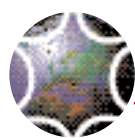
Although the members of AFLAI, the African Federation of Leather and Allied Industries, are holding a conference during the fourth Meet in Africa scheduled to take place in Addis Ababa in Ethiopia on 6-9 October, it is worth noting that on this occasion the organisers have removed the broad conference/seminar element from the event. The purpose of this is to get down to real trading and it appears that the time for 'lecturing' might be at the end.

Indicative of this approach, a leather sector business meeting has been scheduled for 4-8 October in the Hotel Sheraton in the Ethiopian capital. The meeting is being organised by Assomac, the Italian National Association of Manufacturers of Footwear, Leathergoods and Tannery machines, in partnership with the Ethiopian Investment Commission, the Ethiopian Tanners Association, AEC, the Spanish association of footwear component manufacturing industries, as well as UNIDO, CDE, the centre for the development of enterprise, and the German VDMA, the garment and leather technology association.

The aim of the meeting, which is technically and financially supported by PRO€INVEST is to bring European and Ethiopian businessmen in the leather sector together, with a view to favouring initiatives of mutual interest to the Ethiopian export industry.

The recommendations in the report are multitudinous and ubiquitous and it is hard to see how many can actually be achieved with the current political and economic infrastructure. Some points stand out. Far too many hides and skins are exported in the raw or part-processed, when the real local benefit comes from the labour intensity of the leather using industries—shoes, garments, and gloves. The current state of much of African tanning leaves the industry with the technically- and capital-intensive wet stages that are also the most problematic for the environment, without the downstream employment payback.

At the same time the developed world must be made to realise that pushing huge volumes of second hand shoes into the African continent is not an answer to its problems. Perhaps the International Council of Tanners (ICT) and the European Tanners (COTANCE) need to unite and persuade People for the Ethical Treatment of Animals (PETA) to work on the husbandry



Regional Survey: Africa

Table 1: Selected characteristics of the African Leather Supply Chain: 1984-late 1990s (Source: (FAO 2002))

African % of world total		Remarks
Cattle, sheep and goats	20% of world resources - 14.9% of hides and skins output.	Due mainly to constraints in breeding, low recovery rate of hides and skins, poor handling, lack of incentives in the buying systems etc
Cattle	10% of world resources - 4.5% of hides output	
Exports of hides and skins	Decreased from 4% to 2%.	Due to inefficient recovery of hides and skins and also to export restrictions, and increases in local tanning capacity.
Imports of bovine hides	Increased from 4.1% to 5.1%	This is a trend in the developing world, a consequence of the shift of leather production from developed to developing countries.
Tanning Capacity	Decreased from 9.2% to 6.8 %	Very large growth in the Far East and Latin America explains the relative decrease in Africa, in spite of an actual increase of 42% in African tanning capacity.
Footwear manufacture		Footwear manufacture is growing slowly, and not responding well to local demand; 73.3% import penetration, particularly from Asia, mainly China.

and animal welfare side and not ➤ against the tanning of one of Africa's few renewable resources, while finding alternate forms of aid to the dumping of old shoes. The issue of China selling huge

Panel 1 Big issues for Africa

The problems that negatively affect the growth and competitiveness of the African leather industry are many. These include:

- The quality of hides and skins.
- A poor and deteriorating infrastructure of roads, power supply and telecommunications that affects all the links of the chain.
- Low levels of transparency in business operations.
- Insufficient experience in trade negotiations.
- Inadequate levels of technological development.
- Low labour productivity, poor management, and out-dated training services.

The report highlights that these are the kind of problems that discourage Foreign Direct Investment, joint ventures and subcontracting, all of which are important mechanisms for participating in the global leather chain, and for gaining the transfer of technology and know-how and less expensive capital.

Panel 2 Positives

The African leather industry is not without its positive indicators:

- Institutions have been set up to introduce and reinforce standards and quality.
- Databases have been established and are in operation to support the industry, though not all with the same level of efficiency.
- Standards have been, or are in the process of being, harmonised at the national level in all the nine countries surveyed, a step that facilitates transactions and greatly reduces costs.
- Some advances have been made towards general macroeconomic stability and a more stable political environment, though still with room for improvement.
- The reduction of environmental pollution is now recognised as a factor of competitiveness.
- Trade promotion strategies have been designed and support institutions established, although their co-ordination needs to be improved.

quantities of shoes into Africa also needs to be faced. Both the EU and the USA are fighting hard against the potential onslaught of Chinese textile and leather productions when tariffs disappear at the end of the year. Who is fighting for Africa?

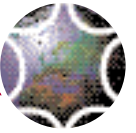
The Common Fund for Commodities (CFC) has experienced challenges in several areas in countries where attempts are being made to introduce structured finance systems in Africa. One of the biggest is the influence of monopolies or big players. "There are dominant players in each part of the trade chain who prefer the status quo. In Africa there is some resistance to change from big traders, tanners and manufacturers, collateral managers and banks, who view policy formulation and implementation with suspicion. There is a fear of transparency and the entry of new players into the market."

The report works on a benchmarking study carried out in ➤

Table 2: Results of a qualitative benchmarking exercise of the leather supply chain

Factors	KENYA	ETHIOPIA	ITALY
Availability of raw hides and skins	Abundant	Abundant	Low
Quality of raw hides and skins	Generally poor	Low-high	High
Access to and cost of raw materials	Generally easy	Generally easy	Difficult
Access to financial resources	Difficult	Difficult	Easy
Sustained capital investment	Low	Low	High
Degree of vertical integration	Low	Low	High
Technological sophistication of facilities and equipment	Low-medium	Low-medium	Very high
Process skills	Limited	Limited	Very high
Research & development	Limited	Limited	Very high
Product development	Limited	Limited	Very high
Tradition in the industry	Fairly recent	Fairly recent	Early
Unique skills within the sector	Rare	Rare	High
Product perception by the global market	Poor	Poor (high for sheep skins)	Very high

Source: Kiruthu (2002)



2002, which compares Ethiopia and Kenya against Italy. The choice of a unique situation such as Italy might be considered odd, but the analysis (Table 2) does not make pretty reading.

Africa's tanning must clearly accelerate its use of its own raw material to manufacture products for its own domestic markets as a priority. In a global situation, however, the report notes that African consumers want access to international brands but, at the global level, access is difficult as the market is "tightly controlled by international marketing agents who have the market knowledge and a wide network". Perhaps the final chapter of the report should include the potential of high level deals with the major international footwear brands to have their shoes made in Africa in return for preferential access. ●

Panel 3

Africa's little to do list (based on Italian benchmarks)

1. Make optimum use of available and generally accessible resources as a basis for building up a competitive advantage with respect to Italy. This scope for competitive advantage, however, is restricted by the quality of hides and skins, hence the urgent need to introduce quality improvements starting at the animal husbandry stage and continuing through the whole supply chain.
2. Facilitate access to financial resources and promote sustained capital investment and vertical integration of the supply chain.
3. Introduce modern training in process skills to improve productivity and competitiveness.
4. Increase efforts in R&D and product development, and in acquiring technology, in order to be able to respond to market requirements. The use of the Internet by African enterprises would facilitate the efficient and timely flow of information between exporters and importers, thereby improving the responsiveness of the sector to market demand.
5. Make additional efforts in research and product development to exploit the unique traditions and skills within the concept of 'Product of Africa' directed towards the demands of niche markets.

A view from South Africa

The Blueprint for the African Leather Industry highlights the rapid growth of imports into the African market, not least into South Africa. Taking a similar value stream approach, Richard Ballard at the University of Natal had earlier looked in detail at what was happening to the South African footwear industry.

He neatly separates the dilemma of the import substitution versus the export oriented approach. Import substitutions stops a country's industries building the international network connections needed to stay up to date with product and process innovation. If they lose protection against imports—as happened in South Africa—cheaper and better supplies will flood in. Instead of a focus on the domestic market shoe companies should have become involved in the highly competitive export market and embarked on the learning curve required for upgrading for overseas markets.

Since the South African footwear industry lacked the interactions to compete internationally what remains in South Africa is regressing and moving to an "informalisation of labour" to reduce costs. Going for exports is not so easy either. In a world of globalisation, overcapacity, never-ending innovation on processes, and China, prices have fallen and continue to do so.

South African manufactured unit export prices

1. The unit price of tanned sheep leather fell from \$32.19/kg in 1995 to \$6.58/kg in 2000
2. The unit price of car leather seats fell from \$60.19/kg in 1995 to \$28.72 in 2000
3. The unit price of leather shoes fell from \$11.29/pair in 1995 to \$9.56/pair in 2000 and of non-leather shoes from \$4.49/pair in 1995 to \$3.02/pair in 2000

(Source: Kaplinsky, Morris and Readman (2001).)

Ballard argues that the blunt policy prescription arising from this is that it is not so much a matter of whether South African manufacturers should be induced to export but rather what they export. If they are locked into the production and export of products exhibiting a sustained and significant decline in prices (without a concomitant decline in production costs), then the

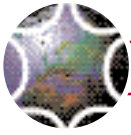
outcome will be deleterious.

So, what determines whether firms are locked into these harmful export niches? The answer is the extent of competition which exists in each of these market segments. Unless firms find some way of escaping these competitive pressures—which, as we have seen, from the perspective of developing countries have been severely heightened by China's entry into global markets—they will not prosper. How do they avoid these competitive markets? By developing the capacity to upgrade. This is now increasingly recognised as the challenge facing industrial policy throughout the global economy.

The last ten years has seen a huge shift in the South African leather industry with automotive upholstery being a star performer and just about everything else in decline. He shows the structure in a value added diagram, which usefully highlights the stages and movement in the South African bovine sector. The international footwear market is dominated by major buyers, which poses risks as they like to keep their distance and flexibility.

Previously Ballard had argued that South African footwear and general goods manufacturers were quick to blame the cost of labour in South Africa as the major inhibitor of future progress. He noted that there had been an expansion in the market share of apparel producers who pay their labour higher wages than Chinese producers as they are driven by innovation and knowledge rather than price. Growth based on cheap labour has been described as 'negative flexibility' and 'immiserising growth'. Ballard suggests that South African manufacturers' obsession with the cost of labour is a mis-identification of the problem and they should rather be concentrating on export orientation, pitching to brand buyers, manufacturing advances, flexibility, speed, quality, inventory control, customer relations and other higher order competitiveness initiatives.

But in looking for these special aspects to differentiate themselves they must fall in line behind Spain, Mexico, Vietnam, Egypt and 100 other countries in the world which are trying to survive the Chinese onslaught by finding a protected niche. The South African leather industry remains very dependent on the auto trade, without which it looks likely to revert to one that only exports raw and part processed material. ●



Opinion: A Blueprint for...?

The Preface to “A Blueprint for the African Leather Industry” details ten separate studies on the leather industry in Africa all produced in 2002 with the support of UNIDO and the CFC (Common Fund for Commodities). Given that the African sector continues to diminish in terms of its proportion of world trade, the question must be asked about the value of this form of international support. This comes at a time when the WTO is under severe pressure over the impact of forcing US-style free trade on an unwilling world and IMF is blamed for using solutions that are both insensitive and inappropriate to the countries it is supposed to help.

Ralph Arbeid, from Santa Croce, has some experience in these matters and indeed contributed to the Blueprint. In July he provided *World Leather* with his personal opinion on the African situation. It makes interesting reading.

“When I attended Meet in Africa 2000 in Casablanca I was invited by the International Trade Centre in Geneva to speak at the event. It was also my maiden voyage into the world of UN agencies and their involvement in the battle against poverty. I listened carefully to all the other speeches that were presented and

particularly to Mr Caleb Dengu of the Common Fund for Commodities, who talked about funding possibilities by CFC, and to Dr Samuel Kiruthu, (head of the ESALIA Secretariat), who talked about a \$1.6 million CFC funded project on grading and pricing.

“Mr Dengu, assisted by figures and graphics, told the audience how easy it was to present a project to CFC for funding—just short of going to the supermarket and picking up a cereal box. Mr Kiruthu explained what kind of miracles the CFC/ESALIA project on grading and pricing would perform. I was full of admiration and surprised how much was actually done to help those poor African countries to rise from their misery.

“Four years later I am a much wiser man. In reality, in order to obtain funding from CFC, the poor Africans need a miracle, unless you are an insider of the system. Every African involved in the leather trade in the ESALIA countries, who were the beneficiaries of the Hides and Skins Grading Project, as well as hide and skin traders worldwide, know that the million plus dollars spent has led to nothing. Hides and skins are traded today on the same conditions as they have been for the last 30-40 years. The project money was wasted on staff, travel, booklets and air-conditioned offices.

“I came to the conclusion that the Africans get the crumbs that are left over after the big boys divide the pie, and it will remain like that forever. If the Africans weren't poor, no pie would be needed to divide. New multi-million projects are being funded, all just as useless for the man in the street as the prior ones, all aimed to keep the air conditioners running and the travel agencies busy.”