



ZAMBIA LEATHER VALUE CHAIN STRATEGY

(2015-2024)

(DRAFT)

AUGUST 2015

Facilitated by COMESA
Leather and Leather Products Institute
(COMESA/LLPI)



VISION

To be among the top ten subsectors in Zambia with regard to competitiveness by 2025.

MISSION

To transform the Zambian Leather Value Chain into a modern and competitive subsector specializing in the production of value added products through the application of modern and cleaner technologies, collaboration, capacity building and resource mobilization.

CONTENT

LIST OF TABLES.....	5
LIST OF FIGURES	7
LIST OF ACRONYMS	8
Map 1: Administrative and Political Map of Zambia	9
EXECUTIVE SUMMARY	10
CHAPTER I: CONTEXT SETTING.....	12
1. Introduction	12
1.1. Structure of the Economy and Sector Performance	12
1.2. The Leather Value Chain Strategy Relationship with other Policies in Zambia	14
1.2.1. Vision 2030	14
1.2.2. Sixth National Development Plan (SNDP)	15
1.2.3. Commercial, Trade and Industrial Policy	15
1.2.4. SME Policy.....	16
1.3. Importance of the Leather Value Chain.....	16
1.3.1. Global Level	16
1.3.2. COMESA Situation	18
1.3.3. Market Size of Footwear in the COMESA Region	19
1.3.4. Imports of Leather by COMESA Countries	20
1.3.5. Livestock Production of Zambia	20
1.4. Conclusion	21
CHAPTER II: SITUATIONAL ANALYSIS OF THE VALUE CHAIN	22
2. Introduction	22
2.1. Industry Structure and Value Chain Map	22
2.2. The Potential of the Zambia Leather Value Chain	25
2.3. The Tanning Subsector	26
2.3.1 The Wet Blue Production Cost Structure and the Implication of Hides and Skins Quality	26
2.4. Situational Analysis of SMEs in the Footwear Industry	28
2.4.1 Overview of the Footwear Supply Chain in Zambia.....	28

2.4.2 Footwear SMEs Performance	29
2.4.2.1 Social Profiling	30
2.4.2.2 Identified Constraints	32
2.4.2.3 Main inputs and Products	32
2.4.2.4 Type and Estimated Cost of the Machines/Tools in Use and Required	34
2.4.2.5 Profitability Analysis	34
2.4.2.6 Banking, Loan Requirements and Repayment Capacity SMEs Relationships with Banks	35
Loan Requirements and Repayments Capacity	36
2.5 Trade Analysis	37
2.5.1 Exports of Articles of Chapter 41 and the Impact of Export Ban	37
2.5.2 Trade of Footwear	38
2.5.3 Regional Comparative analysis	38
2.5.3.1 Competiveness Analysis	38
2.5.3.2 Trade Policy Comparison	39
2.5.3.3 Trade Policy on Hides and Skins	40
2.6 Conclusion	40
CHAPTER III: PARTICIPATORY ANALYSIS OF THE VALUE CHAIN	41
3. Introduction	41
3.1. Distribution of Workshop Participants	41
3.2. Issues Impacting on the Performance of the Leather Value Chain	41
3.2.1. SWOT Analysis	41
3.2.2. Gap Analysis of the Zambia Leather Value Chain	45
3.3. Conclusion and Emerging Priority Intervention Areas	49
CHAPTER IV: STRATEGY	51
4. Introduction	51
4.1. Vision and Mission	51
4.2. Strategic Market and Growth Goals	51
4.3. Strategy Objectives and their Rationale	52

4.4. Strategic Objectives Prioritization	54
4.4.1. Sub-Objectives, Activities and Measurable Outputs	55
4.4.1.1. Objective 1: Develop 20 Footwear and Leather Goods SMEs Clusters, each with a Minimum Membership of 20 SMEs	55
4.4.1.2. Objective 2: Improve the Production and Collection of Quality Hides and Skins	57
4.4.1.3. Objective 3: To facilitate Resource Mobilization and Policy Support for the Growth of the Value Chain	58
4.4.1.4. Objective 4: Improve collaboration and Policy implementation across the value chain	58
4.4.1.5. Objective 5: Facilitate the Production of High Quality Finished Leather in an Environmentally Sustainable Manner	59
4.4.1.6. Objective 6: Facilitate Intra and International Trade Growth of the value chain	60
4.4.1.7. Objective 7: Facilitate Government Procurement of Domestically Produced Footwear and Leather goods	61
4.5. Implementation Methodology	61

LIST OF TABLES

Table 1: Structure of the Zambia Economy.....	13
Table 2: The Strategy Relationship with Vision 2030	15
Table 3: Strategy Relationship with SNDP.....	15
Table 4: Strategy Relation with Commercial Trade and Industrial Policy	15
Table 5: Strategy Relationship with SME Policy.....	16
Table 6: Global Dynamics in the Trade of the Leather Value Chain	18
Table 7: COMESA Imports of Footwear.....	20
Table 8: COMESA Imports of Finished Leather	20
Table 9: Zambia Livestock	21
Table 10: Slaughtering Statistics.....	21
Table 11: Estimates of Pre, Peri- and Post-Slaughter Defects on Bovine Hides and Goats/Sheep Skins (2013)	25
Table 12: Value Addition Potential and Estimated Losses	26
Table 13: Tanning Production Function.....	27
Table 14: Zambia's Footwear Supply Chain.....	28
Table 15: Summary by Educational Level.....	31
Table 16: Business Training	31
Table 17: Source of Capital Profile.....	31
Table 18: Footwear Combinations.....	33
Table 19: Optimum Output per Day	34
Table 20: Machinery Adequacy and Reliability	34
Table 21: Summary of Machine Combination per Enterprise	34
Table 22: Summary of Machine Requirements	34
Table 23: SMEs Relationship with Banks.....	35
Table 24: Loan Repayment Capacity under Different Scenarios	36
Table 25: Summary of Competitiveness Indicators of Zambia and other COMESA Countries	39
Table 26: Trade Policy Instruments Comparisons	39
Table 27: Summary of Hides and Skins Export Policy and Impact.....	40
Table 28: SWOT Analyses of the Zambian Leather Value Chain	43
Table 29: Gap Analysis of the Zambian Leather Value Chain.....	46
Table 30: Summary of Critical Intervention Areas.....	49
Table 31: Target Market.....	51
Table 32: Growth Strategic Target.....	52
Table 33: The Rationale for Selected Objectives.....	52
Table 34: Strategic Objectives Prioritisation	54
Table 35: Objective One and Sub objective	55

Table 36: Objective Two and Subjective	57
Table 37: Objective 3 and Sub objectives	58
Table 38: Objective 4 and Sub objectives	59
Table 39: Objective 5 and Sub objectives	59
Table 40: Objective 6 and Sub objectives	60
Table 41: Objective Seven and Sub objectives.....	61

LIST OF FIGURES

Figure 1: Trends in Zambia FDI	14
Figure 2: Global Importance of the Leather Value Chain	17
Figure 3: Stages of the Value Chain	19
Figure 4: Zambia Leather Value Chain	23
Figure 5: Exports of Articles of Chapter 41	24
Figure 6: The Relationship between Hides/Skins Grades and Yield	27
Figure 7: The Relationship between Tanning Cost and Hides and Skins Grade	27
Figure 8: Summary by Geographical Location	29
Figure 9: Gender Balance	30
Figure 10: Summary by age Groups	30
Figure 11: Training Background	31
Figure 12: Summary of Constraints	32
Figure 13: Main inputs in Footwear Production	32
Figure 14: Relationship between Profitability and Capacity Utilisation	33
Figure 15: Profitability Analysis	35
Figure 16: Popular Banks for SMEs	36
Figure 17: Trends in Exports of Articles of HS41	37
Figure 18: Trends in Imports and Exports of Footwear	38

LIST OF ACRONYMS

COMESA:	Common Market for Eastern and Southern Africa
COMESA/LLPI:	Common Market for Eastern and Southern Africa – Leather and Leather Products Institute
EAC:	East African Community
FAO:	Food and Agriculture Organization
F.O.B:	Free On Board
GDP:	Gross Domestic Product
ITC:	International Trade Centre
HS:	Harmonized System
IS:	Index of Specialization
Kg:	Kilogram
LLDC:	Land-Locked Least Developed Country
MFN:	Most Favoured Nation
PA:	Per Annum
PTA:	Preferential Trade Area Bank
RCA:	Revealed Comparative Advantage
SMEs:	Small and Medium Enterprises
SWOT:	Strengths, Weaknesses, Opportunities and Threats
TCFC:	Training and Common Facility Centre
USD:	United States Dollar
UNIDO:	United Nation Industrial Development Organization
ZLIA:	Zambia Leather Industries Association

Map 1: Administrative and Political Map of Zambia



EXECUTIVE SUMMARY

Zambia's development agenda is articulated in its National Long Term Vision 2030. The Vision is being implemented through the five year development plans starting with the Fifth National Development Plan (2006 -2010) and annual budgets. This marks a departure from past practice of preparing and implementing medium-term plans that were not anchored on a national vision. The Zambian people's vision is to become "A Prosperous Middle Income Nation by 2030".

According to the World Bank, Zambia registered rapid growth in the last decade. This was attributed to a combination of prudent macroeconomic management, market liberalization policies, and sharp rise in copper prices which stimulated investments in the copper industry and related infrastructure to achieve an average annual growth of about 6.4% during the last decade. Though the economy is dependent on copper, the agriculture sector is the major employer (70% of the population). However, the sector's potential to contribute to the country's development remains largely underexploited. Like all mineral driven growth, it has not translated into significant poverty reduction. Sixty percent of the population lives below the poverty line and 42% are considered to be in extreme poverty. Moreover, the absolute number of poor has increased from about 6 million in 1991 to 7.9 million in 2010, primarily due to population growth.

Given the above it is imperative that Zambia diverse its production base by supporting value addition of its natural and agro based resources. The leather value chain holds a potential to create jobs, save and generate foreign currency and also contribute to fiscal revenue. The economic growth in Zambia has stimulated meat consumption, which has seen livestock slaughter rising rapidly to reach 1.9 million in 2014, from as 0.6 million in the past five years. This scenario, as raised the potential of the Zambian Leather Value chain to peak to close to half a billion assuming all hides and skins are processed into finished products.

However despite this positive growth in potential, the tanning industry has greatly contracted from five to two tanneries, despite the existence of an export ban, which has been in place since 2003. There is a general consensus among key stakeholders, that the massive hides and skins hemorrhage, could be attribute to informal export of hides and skins. On the demand side footwear imports has increased sharply from US\$ 6.8 million to US\$ 35.7 million in the same period. The trade balance between imports and exports of footwear has widened six fold, from US\$ 6 million to US\$34 million in favour of imports.

The current strategy proposes 7 strategic objectives, as mechanism of transforming the leather sector into a robust sector that would generate value in the Zambia economy, thus consequently contribute to Vision 2030. The seven strategic objectives are as follows:

- Develop 20 Footwear and Leather Goods SMEs Clusters, each with a minimum membership of 20 SMEs;
- Improve the production and collection of quality hides and skins;
- Facilitate Resource Mobilization and Policy support for the Growth of the Value Chain;
- Improve collaboration and Policy implementation across the value chain;
- Facilitate the production of high quality finished leather in an environmentally sustainable manner;
- Facilitate intra and international trade growth of the value chain;

- Facilitate Government Procurement of domestically produced footwear and leather goods

The implementation of the above would lead to the attainment of the vision of this strategy, which reads: To be among the top ten subsectors in Zambia with regard to competitiveness by 2025.

It is fundamental to note that the attainment of the given vision would depend on the implementation of the Strategy with full participation of the Zambian Government, Private Sector, Academia and Development Partners. It is therefore important that an Apex Committee is formulated to coordinate the implementation of this strategy. The committee members should be drawn from the stakeholders listed above.

CHAPTER I: CONTEXT SETTING

1. Introduction

Zambia's development agenda is articulated in its National Long Term Vision 2030. The Vision is being implemented through the five year development plans starting with the Fifth National Development Plan (2006 -2010) and annual budgets. This marks a departure from past practice of preparing and implementing medium-term plans that were not anchored on a national vision.

The Zambian people's vision is to become "A Prosperous Middle Income Nation by 2030". By 2030, Zambians aspire to live in a strong and dynamic middle-income industrial nation that provides opportunities for improving the well-being of all, embodying values of socioeconomic justice, underpinned by the principles of:

- Gender responsive sustainable development;
- Democracy;
- Respect for human rights;
- Good traditional and family values;
- Positive attitude towards work;
- Peaceful coexistence and;
- Private-Public partnerships.

The Vision highlights three scenarios outlining development options, namely the baseline, the preferred and the optimistic. The socio-economic development objectives enshrined in the Preferred Scenario are: to attain and sustain annual real growth of 6 percent (2006-2010), 8 percent (2011-2015), 9 percent (2016-2020), and 10 percent between 2021 and 2030; to attain and maintain a moderate inflation rate of 5 percent; to reduce national poverty head count to less than 20 percent of the population; to reduce income inequalities measured by a Gini coefficient of less than 40; to provide secure access to safe potable water sources and improved sanitation facilities to 100 percent of the population in both urban and rural areas; to attain education for all; and, to provide equitable access to quality health care to all by 2030.

The dynamics of Zambia's leather value chain is influenced by the natural livestock base, extension support, macroeconomics and an array of economic and development policies, which have a direct or indirect effect to its performance. Some of these factors are discussed in brief in this chapter, as a mechanism of setting the context in which this strategy would operate in. In addition, the interface of this strategy and some of the policies in Zambia are also elaborated in this Chapter.

1.1. Structure of the Economy and Sector Performance

According to the World Bank, Zambia registered rapid growth in the last decade. This was attributed to a combination of prudent macroeconomic management, market liberalization policies, and sharp rise in copper prices which stimulated investments in the copper industry and related infrastructure to achieve an average annual growth of about 6.4% during the last decade. Though the economy is dependent on copper, the agriculture sector is the major employer (70% of the population). However, the sector's potential to contribute to the country's development remains largely underexploited.

Like all mineral driven growth, it has not translated into significant poverty reduction. Sixty percent of the population lives below the poverty line and 42% are considered to be in extreme poverty. Moreover, the absolute number of poor has increased from about 6 million in 1991 to 7.9 million in 2010, primarily due to population growth. The urban picture is far better than the

rural: in the Copperbelt and Lusaka provinces, for example, poverty incidence is fairly low (22% and 34% respectively), whereas in the rest of the country, which is dominated by agriculture, poverty rates are greater than 70%.¹ The GDP of Zambia stood at ZK 97, 2 billion according to the 2010² figures. The contribution of the manufacturing sector is below 9%, which shows that Zambian Government must put in place measures to support and transform its economy from the production and trading in raw materials to production and trading of value added products. The transition would facilitate the creation of jobs, which would thus assist in reducing the incidence of extreme poverty.

Table 1: Structure of the Zambia Economy

Industry	Total VA (k' million)	Sector Share (%)
Agriculture, forestry and fishing	9,601.60	10.46
Mining and quarrying	12,518.40	13.63
Manufacturing	7,676.50	8.36
Electricity, gas, steam and air conditioning system	1,658.20	1.81
Water supply; sewage, waste management and remediation activities	167.20	0.18
Construction	10,588.30	11.53
Wholesale and retail trade; repair of motor vehicles and motorcycle	17,846.20	19.43
Transportation and storage	5,778.50	6.29
Accommodation and food service activities	1,640.00	1.79
Information and communication	1,646.90	1.79
Financial and insurance activities	4,073.50	4.44
Real estate activities	4,120.60	4.49
Professional, scientific and technical activities	1,553.40	1.69
Administrative and support service activities	1,732.60	1.89
Public administration and defense; compulsory social security	3,906.00	4.25
Education	6,818.50	7.42
Human health and social work activities	1,900.20	2.07
Arts, entertainment and recreation	368.10	0.40
Other service activities	823.10	0.90
Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	4.30	0.00
Financial Intermediation Services Indirectly Measured	(2,585.90)	(2.82)
Total for the economy	91,836.20	100.00

VA: Value Addition

The Zambia economic boom has been partially influenced by the rapid growth in Foreign Direct Investment (FDI), which rose from US\$ 72 million to US\$ 1.7 billion from 2001 to 2012 respectively. The turning point was between 2006 and 2007, when FDI more than doubled from US\$ 467 million in 2006 to US\$1,3 billion in 2007. Figure 1 illustrates the dynamics in FDI performance:

¹ <http://www.worldbank.org/en/country/zambia/overview>

² Zambia Central Statistical office

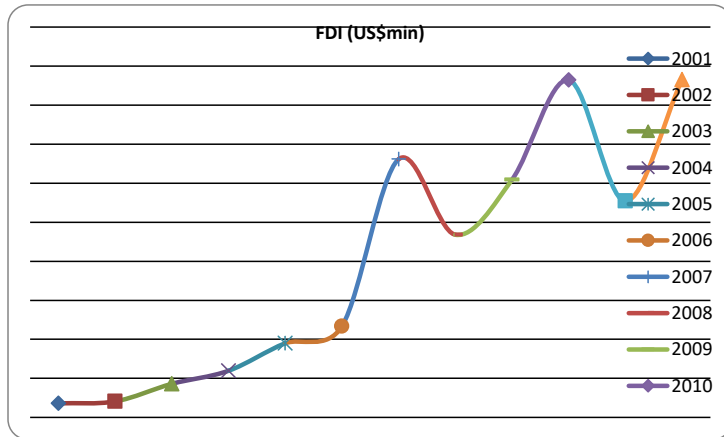


Figure 1: Trends in Zambia FDI

1.2. The Leather Value Chain Strategy Relationship with other Policies in Zambia

Policies or strategies in any country should have a strategic relationship or a logical link with the overall development vision and aspirations of a country. Disjointed and contradictory policies normally introduce distortions and implementation challenges. Zambia has a number of policies that are aimed at contributing to its sustainable growth and development. Given the importance of a strategic linkage that must exist among policies, the leather value chain strategy was evaluated to identify areas of common interface with the National Industrial and Trade Policies of Zambia.

The seven main objectives of the Zambian Leather Value Chain Strategy are:

- Develop 20 Footwear and Leather Goods SMEs Clusters, each with a minimum membership of 20 SMEs;
- Improve the production and collection of quality hides and skins;
- Facilitate Resource Mobilization and Policy support for the Growth of the Value Chain;
- Improve collaboration and Policy implementation across the value chain;
- Facilitate the production of high quality finished leather in an environmentally sustainable manner;
- Facilitate intra and international trade growth of the value chain;
- Facilitate Government Procurement of domestically produced footwear and leather goods.

1.2.1. Vision 2030

With regard to the manufacturing sector, Zambia's Vision 2030 of the Manufacturing sector is "Technology based and export focused manufacturing sector, which is dynamic and competitive with effective entities that add value to the locally abundant natural resources by 2030." The specific targets for the industrial sector for seen are bulleted in the first column of Table 2

Table 2: The Strategy Relationship with Vision 2030

Vision 2030	The Relationship between Vision 2030 and the Leather Strategy						
	S.O. 1	S.O. 2	S.O. 3	S.O. 4	S.O. 5	S.O. 6	S.O. 7
Develop a fully integrated rural based agro-based and light-manufacturing by 2030	x	x				x	
Increase the share of general manufacturing contribution to GDP to 36.12 by 2030	x	x	x	x	x	x	x
Increase Manufactures exports as a share of merchandise exports to 71 percent by 2030.	x				x		

1.2.2. Sixth National Development Plan (SNDP)

The Sixth National Development Plan is the building block of the Vision 2030 and runs from 2011 to 2015. It recognizes the manufacturing sector as a pivot of economic development through its backward and forward linkages to economic growth, exports and employment creation. The objectives of the SNDP with respect to the Manufacturing Sector are tabulated in column 1 of Table 3.

Table 3: Strategy Relationship with SNDP

SNDP	The Relationship between the SNDP and the Leather Strategy						
	S.O. 1	S.O. 2	S.O. 3	S.O. 4	S.O. 5	S.O. 6	S.O. 7
To expand the industrial base and increase value addition	x	x	x	x	x	x	x
To facilitate private sector development	x	x	x	x	x	x	x
To promote the growth of MSMEs	x	x				x	x

1.2.3. Commercial, Trade and Industrial Policy

The overall Vision of the National Commercial, Trade and Industrial Policy is: To develop an enabling economic environment in Zambia which supports private investments, enables the development of domestic productive capacities, and contributes to the expansion of Zambia's international trade. Its specific objectives are compared with the Leather Value Chain (see Table 4).

Table 4: Strategy Relation with Commercial Trade and Industrial Policy

Commercial, Trade and Industrial Policy	The Relationship between Zambia Commercial, Trade and Industrial Policy						
	S.O.1	S.O.2	S.O.3	S.O.4	S.O.5	S.O.6	S.O.7
To stimulate and encourage value-addition activities on primary exports as a means of increasing national export earnings and creating employment opportunities;	x	x	x	x	x	x	x
To transform the Zambian economy into a diversified and competitive economy which is well integrated into the international trading environment	x	x	x	x	x	x	x
To stimulate investment flows into export-oriented areas in which Zambia has comparative advantages as a strategy for inducing innovation and technology transfer in the national economy;			x				x
To support the effective development and utilization of domestic productive capacities as a means to increasing output and expanding employment opportunities;		x	x	x		x	x

Commercial, Trade and Industrial Policy	The Relationship between Zambia Commercial, Trade and Industrial Policy						
	S.O.1	S.O.2	S.O.3	S.O.4	S.O.5	S.O.6	S.O.7
To facilitate the acquisition of modern technology to support value-adding, industrial processes by domestic firms				x			
To facilitate public and private investments in testing infrastructure to support improvements in the quality and standards of Zambian products						x	
To assist domestic firms to increase their levels of efficiency and competitiveness, and therefore withstand increasing competition in domestic and international markets.	x			x	x	x	x
To formalize, monitor and regulate domestic trade activities with a view to promoting and stimulating a vibrant domestic trading sector; particularly by ensuring fair competition in the domestic market, and also protecting the welfare of consumers.							
To facilitate the mainstreaming of HIV and AIDS into the sector's core mandates by exploiting our comparative advantage in the response.							

1.2.4. SME Policy

The Zambia SME policy documents were published in 2008 and its goal is to create a vibrant, dynamic sector that contributes 20% of Gross Domestic Product and 30% annually to creation of decent employment by the year 2015. Its objectives are analyzed in relation with the Zambia Leather Value Chain Strategy (see Table 5).

Table 5: Strategy Relationship with SME Policy

SME Policy	The Relationship between Zambia SME Policy and the Leather Strategy						
	S.O.1	S.O.2	S.O.3	S.O.4	S.O.5	S.O.6	S.O.7
To facilitate creation and development of viable Micro Small and Medium Enterprises that contributes 30% towards annual employment creation and 20% towards Gross Domestic Product by the year 2018.	x	x	x	x	x	x	x
To facilitate an increase of 10% towards utilisation and value addition of local raw materials in identified regional areas by the year 2018.		x					x
To strengthening forward linkages between MSMEs and large scale companies by facilitating an annual increase of 10% in subcontracting of MSME by large scale companies.	x	x	x	x	x	x	x
To improve productivity in the MSME sector by 10% by the year 2018.	x	x	x	x	x	x	x
To enhance Local Economic Development thereby stimulating broad based economic growth by establishing five (5) Business Incubators and five (5) Industrial Parks in identified locations by the year 2018.	x	x	x	x	x	x	x

1.3. Importance of the Leather Value Chain

1.3.1. Global Level

Broadly, the leather value chain has four main stages, namely raising of livestock; production of hides and skins, tanning and production of footwear and other leather products. The market structure at the various levels of the value chain is varied, depending on the characteristics

and attributes and the elasticity of the product in question. The production of hides and skins is independent of the dynamics in the leather supply chain, the volumes and quantities produced are greatly influenced by circumstances prevailing in the meat and dairy sector. Thus, a change in the price of hides and skins on the market does not impact on the quantities, which would be brought to the market, thus, their supply is viewed as perfectly inelastic. On the other end of the market, the demand of hides and skins is influenced by the dynamics in the footwear and leather products markets, thus an increase in the demand of leather products would in turn result in an increase in the demand of leather, thus, the demand of leather is considered to be relatively elastic, which also implies that the demand of hides and skins is derived demand, as they respond to activities downstream.

The global market for leather and leather products is huge. The leather value chain globally is estimated at US\$ 100 billion.³ It is however important to note that this may be an understatement as the finished leather which is used in upholstery for automobiles and household furniture cannot be easily ascertained in trade figures and the value it adds to the prices of vehicles and furniture. In addition to this footwear, which is made of a combination of leather and canvas, may not be currently included in the USD 100 billion.

A comparison of this value chain with other commodities reveals that its trade is greater than the combined trade of meat, sugar, coffee and tea; see Figure 1 below. Despite this immense importance, the sector has not received much attention especially in many developing countries, when compared with other commodities, whose production and marketing are championed by institutional support, for example Meat Commission, Tea or Coffee Boards etc. The absence of an institutional support to the leather value chain has retarded its growth, as it has not attracted the desired policy and financial support from Central Governments and other relevant stakeholders. See Figure 2

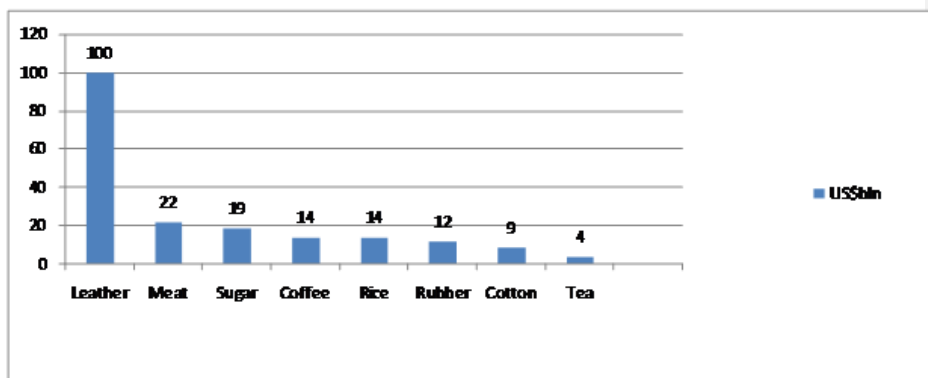


Figure 2: Global Importance of the Leather Value Chain

Source: Computed within COMESA/LLPI reports and FAO 2012

Hides and skins production is a function of the livestock size, slaughter rates, meat consumption and economic growth among other factors. The pattern of this relationship is stepwise; for instance the number of animals slaughtered is a function of meat consumption, which is in turn influenced by economic performance. The production of hides and skins from the developing countries has been in an upward trend from 2004 up to 2013, and this growth is projected to continue in 2014 and 2015, given the robust economic growth figures, which have been registered in the Emerging and Developing Economies. This is mainly because high meat consumption is associated with economic growth. On the other hand hides and

³ The US\$ 100 billion excludes leather blended products, e.g. sports shoes and fashionable bags.

skins production from the Developed Countries, have gone under 2,500 tons from 2008 and have continued to recede gradually; this could be attributed to declining consumption of red meat. It is however fundamental to note that the total global production of hides and skins would continue to rise, as growth in Developing Countries is accelerating faster than the rate of deceleration in Developed Countries.

The global trade in the leather value chain grew over the period 1993 to 2011; the growth pattern for each product category is summarized in Table 6, below. There is a clear indication that growth in trade rose with the level of value addition, hence Zambia must direct its attention towards the production and trade of value added products.

Table 6: Global Dynamics in the Trade of the Leather Value Chain

Product Category	Average USD billions)		Growth Rate (%)
	1993 to 1995	2009 to 2011	
Raw hides and skins	4.7	5.4	14.9
Semi tanned and finished leather	11.7	17.5	49.6
Footwear with leather uppers	22.7	44.9	97.8

Source: FAO (2012)

1.3.2. COMESA Situation

COMESA is a Regional Economic Grouping (REG), whose main objective is to promote economic growth and development through regional integration. It is composed of 19 African countries (2015), which owns approximately 11% and 56% of livestock globally and in Africa respectively; however its contribution to the global trade is estimated at a paltry 3%. This is attributed mainly to a number of factors ranging from pre⁴-, peri⁵- and post⁶-slaughter challenges and limited or no value addition to hides and skins produced in the region. The collection ratios of hides and skins is estimated to below 50% in many COMESA countries as slaughter is not centralized and also at times low prices offered discourages collection of hides and skins that are produced in remote parts of the country. Peri-slaughter defects have been heightened because most slaughter facilities' fees are based on the number of animals slaughtered rather than the quality of hides, as the core suppliers of livestock are in the meat business, and also do not pay for the raw hides at the time of livestock purchase. Thus income generated from the sale of hides and skins, is income generated without incurring any cost, associated with the specific commodity, it's consequential to their core business. Figure 3 below illustrates the inverse relationship between the relative significance of the COMESA region in the global value chain, as it progresses downstream. Note that the illustration in the figure below relates only to bovine animals and bovine light leather and footwear. The illustrated situation is a true reflection of what leather proportion is obtained with regards to other types of hides and skins.

⁴ Pre-slaughter defects – any damage caused by different factors like poor management genetic make-up, disease and nutrition etc. while the animal is alive

⁵ Peri-slaughter defects: any defect that occur by several reasons, like failure to rest animals for certain period of times before slaughtering, incomplete bleeding poor flaying of hides and skins.

⁶ Post-slaughter defects- groups of defects that take place after the hides/skins are flayed and include poor curing, poor handling, improper storage and poor tanning process

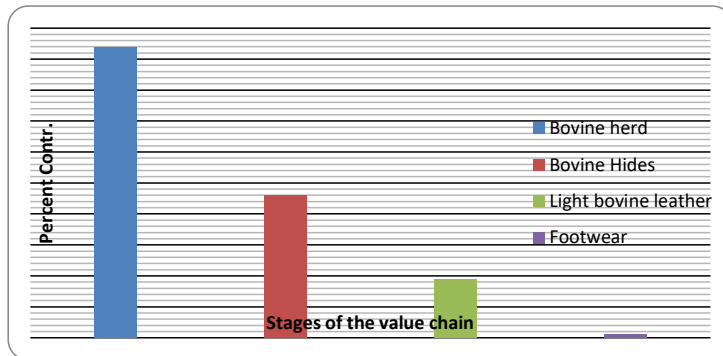


Figure 3: Stages of the Value Chain

The COMESA countries are part of the global value chain, however their earnings from the chain is undermined because of their point of entry into the chain. Their production of raw hides and skins have been growing and consequently employment at that level, however their returns have not been in tandem. This is in line with Kaplinsky's (2000) argument when he stated that "the consequence of the failure of individual firms, groups of firms and national economies to insert themselves appropriately into the global markets is that the spectre is raised of immiserising growth; this describes a situation where there is increasing economic activity but falling economic returns.

The limited importance of COMESA in producing value added products, has a significant opportunity cost with regard to incomes and employment creation in the region. The continuous export of raw hides and skins implies a loss of wealth and jobs, which could have been generated in the region. It is fundamental that drastic measures should be taken to transform this industry in the COMESA region; already there are noticeable improvements in the past 10 years in Ethiopia. Zambia and other countries in the region can, therefore, draw practical lessons from Ethiopia.

1.3.3. Market Size of Footwear in the COMESA Region

The human population size of the COMESA region is about 400 million and its market size of footwear is estimated at 365 million pairs of shoes per annum, based on the estimated footwear per capita of 0.85. Assuming all these pairs of shoes are produced in the COMESA region, approximately 365,000 shop level jobs would be created, which would trigger demand in the finished leather, soles, glues and other accessories consequently creating more indirect jobs.

In 2014, US\$ 1 billion worth of shoes were imported into the COMESA region from the rest of the world and this translates⁷ to approximately 100 million pairs of shoes. The total market demand is 450 million pairs against a supply of 156 million pairs (imports plus regional production). With an estimated shortfall of 300 million pairs, which is not satisfied per annum? This is a clear indicator that SMEs have a big room to enter the market, with minimal competition from locally established firms and also from imports. The figure below illustrates the sharp growth in footwear imports from the rest of the world, as opposed to slow or almost stagnant growth in intra trade imports in the COMESA region. China's contribution to COMESA's footwear imports bill rose from US\$ 241 million to US\$ 767 million dollars in 2009 and 2014 respectively. Its relative importance in the COMESA market has grown from contributing 61% to 72% of the COMESA footwear import bill in the same period. On the

⁷ Assuming that the import prices range between US\$10

contrary intra trade in footwear in the COMESA region, has retreated from 6.8% to 2.2%. The impact of China in the COMESA market is visible, however many SMEs and consumers rate the quality and durability of products, as below market expectation, however these shoes are lowly priced. It is therefore imperative that the SMEs should aim to produce quality, durable and competitively priced products, to ward off competition from China. Table 7 below illustrating the import dynamics from China, Rest of the World and from COMESA to COMESA (footwear)

Table 7: COMESA Imports of Footwear

Imports (US\$000's)	2009	2010	2011	2012	2013	2014
Rest of the World	391,670	549,404	588,106	-	910,204	1,061,081
China	241,136	338,376	400,945	629,902	608,656	767,896
Intra COMESA	26,663	36,607	50,252	33,415	41,092	29,944
% of intra COMESA	6.81	6.66	8.54	-	4.51	2.82
% of imports from China	61.6	61.6	68.2	-	66.9	72.4

Source: Trade Map

1.3.4. Imports of Leather by COMESA Countries

COMESA imported leather worth US\$ 41 million from the rest of the world, from a base of US\$ 31 million dollars in 2009. The growth in leather imports has been very slow in comparison to footwear imports, which have reached US\$ 1 billion in 2014, from US\$ 391 million in 2009. Footwear imports have more than doubled, whereas finished leather has gone up by 25%. Table 8 summarises footwear imports by the COMESA from the rest of the world and intra trade.

Table 8: COMESA Imports of Finished Leather

	2009	2010	2011	2012	2013	2014
Rest of the World	31,675.00	53,594.00	47,806.00	-	59,565.00	41,266.00
Intra imports	4,769.00	10,238.00	13,389.00	6,435.00	17,070.00	7,008.00
Intra/world (%)	15.1	19.1	28.0	-	28.7	17.0

Source: Trade Map

1.3.5 Livestock Production of Zambia

The livestock sector is important for poverty reduction, livelihood security and economic growth but lacks the necessary infrastructure for improved production and value addition. Livestock sub-sector contribution to agricultural GDP is about 28%⁸. Livestock production enhances the economic viability and sustainability of farming systems since they diversify income, provide all-year-round employment and serve as insurance in times of need. The sales of livestock and their products provide funds for financing farm investments. Livestock often forms the major capital reserve of farming households and contribute substantially to crop production through provision of draught power and manure. However, the livestock sector remains under-developed and negatively affected by frequent outbreaks of diseases, thus, limiting its ability to penetrate international markets. Consequently, livestock and its products are often marketed in a disorganized manner and animals often slaughtered under unhygienic conditions which pose health risks to consumers.

Despite the constraints highlighted above the livestock sector in Zambia has registered positive growth in tandem with the economic growth. Growth was registered in all livestock categories, however goats and sheep posted the most rapid increase, as illustrated in Table

⁸ African Development Bank

9. The positive growth in all livestock categories consequently boosts the potential for generating hides and skins, which are the basic feedstock in the leather value chain. Hides and skins contribute 60% in the production of finished leather.

Table 9: Zambia Livestock

Species	2012	2013	% Change 2013/2012
Cattle	3,603,452	3,932,269	9.0
Goats	1,112,503	3,023,585	172.0
Pigs	1,347,437	1,517,492	13.0
Poultry	98,587,625	112,791,669	14.0
Sheep	600,835	816,397	36.0

Source: Ministry of Agriculture and Livestock

The demand for meat in Zambia has been on an increase, this could mainly be explained by an increase in GDP per capita. The rapid increase in demand for meat is reflected by the rise in the slaughter levels, as illustrated in Table 10.

Table 10: Slaughtering Statistics

Species	2012	2013	% Change 2013/2012
Cattle	1,217,490	1,923,517	58.0
Goats	80,744	201,324	149.0
Pigs	189,892	113,343	(40.0)
Poultry	24,840,000	53,649,839	116.0
Sheep	9,954	10,538	6.0

Source: Ministry of Agriculture and Livestock

The rapid growth in the slaughter levels would enhance the availability of hides and skins to tanneries. However despite this rise in slaughter levels, it was reported that most tanneries are facing an acute shortage of hides and skins. This matter is discussed in detail in Chapter II.

1.4. Conclusion

A solid base for generating a comprehensive understanding of the Zambia leather value chain has been developed in this chapter. This was accomplished by analyzing the structure of the economy, the relationship of some of the policies, with objectives of the leather value chain⁹, global, regional and national situation of the leather value chain. The next Chapter employs the value chain approach to identify and analyze the issues and dynamics of the Zambia Leather Value Chain.

⁹ Presented in detail in the Chapter dealing with the Strategy

CHAPTER II: SITUATIONAL ANALYSIS OF THE VALUE CHAIN

2. Introduction

The situational analysis presented in this chapter of the Zambia Leather Value Chain was developed through a Participatory Value Chain Approach, which included: primary and secondary data collection; value chain map analysis; potential of the leather value chain; opportunities forgone due to the exporting of raw hides and skins and wet blue; income distribution in the marketing of bovine hides; trade performance; situational analysis of SMEs in the footwear manufacturing subsector and a regional competitive comparative analysis.

Significant stakeholder participation in a value chain strategy development increases the likelihood of success and sustainability. With broad participation, solutions to value chain constraints are generally more appropriate to the local setting, and when stakeholders understand and take ownership of the value chain development process they are more likely to remain actively engaged beyond the life of the project. The value chain approach necessitates consideration of all actors in a market system the private-sector firms in the value chain from input supply through to end market retailers, service providers, and public and private decision-makers in the enabling environment and is, therefore intrinsically participatory to some degree. However, emerging best practice in value chain development recommend a greater level of participation: explicitly engaging key actors from different levels of the value chain throughout the project lifecycle and devolving to them a high level of goal setting, decision making and responsibility for action.

2.1. Industry Structure and Value Chain Map

Mapping a chain means creating a visual representation of the connections between businesses in value chains as well as other market players. Value Chain Mapping assists in developing an understanding of the nature of relationships between market players; the reasons for constraints that are preventing value chains from achieving the desired outcomes (step-ping-up strategies); identification of alternative opportunities for income and employment creation (stepping-out strategies). Based on the findings of the value chain research, strategies can then be formulated that will eventually lead to value chain development. The given approach was employed during the participatory stakeholders' workshop. Thus, it helps to illustrate and understand the process by which a product goes through several stages until it reaches the final customer (i.e. the core transactions). Knowing about the different levels in a value chain is also a precondition for identifying bottlenecks that are preventing the achievement of certain targets

The utility of value chain analysis is supported empirically as it has been used by many developing agencies such as IFAD, FAO, USAID, and GTZ, among others in designing strategic interventions. In addition, the approach has received attention from global scholars such as Porter and Kaplinsky among others. According to Kaplinsky and Morris (2000), mapping the range of activities in a value chain provides the capacity to decompose total value chain earnings into the rewards which are achieved by different parties in the chain. It is imperative that the flow of goods and incomes at every stage of the value chain should be dissected in order to gain a thorough appreciation of the issues. Failure to have a true picture would result in designing strategic interventions that would not address the core issues undermining the development of the value chain. The use of generic leather value chains has undermined the designing of specific interventions for different countries, because most development agents have employed a one size fits it all approach.

The Zambia leather value is inclusive of livestock farmers, livestock traders, butcheries, slaughter facility owners, hides and skins traders and exporters, tanners and artisanal footwear and leather footwear and goods manufacturers. It is however imperative to note that

the Zambian Leather Value Chain is unique across the COMESA region, as it is dominated by one enterprise, which is vertically integrated from animal production to the end (production of footwear and leather products). Whereas most of the tanneries in Zambia are near closure, Zamleather, has survived because of its assured supply of raw hides and skins from its slaughter house. It can thus be inferred that if Zamleather was not vertically intergrated with Zambeef, the leather processing industry could have collapsed in Zambia, despite the production of approximately 2 million bovine hides annually. The schematic presentation of the leather value chain in Zambia is illustrated in the Figure 4 below.

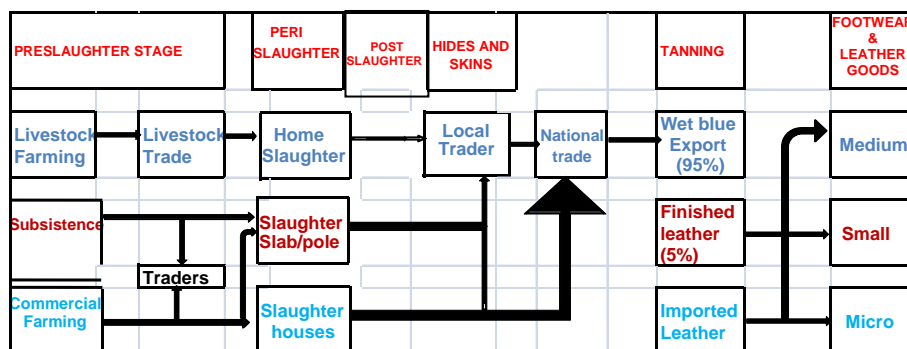


Figure 4: Zambia Leather Value Chain

Source: COMESA/LLPI after the National Stakeholders Workshop, Lusaka, Zambia (2015)

It is estimated that livestock contributes 3.2% to GDP and 42% to agriculture; livestock has received limited attention from Stakeholders, as reflected by small fiscal budget allocation of around 17% of the total agriculture budget allocation¹⁰. This scenario has impacted negatively on the production of quality livestock and low productivity rates. The sector is associated with poor livestock supporting infrastructure from production, marketing and slaughtering, this has consequently impacted negatively on the quality of hides and skins produced. This challenge was confirmed by Stakeholders who participated in the consultation workshop.

As is the case in many COMESA and other developing countries, in the Zambia leather value chain, the hides and skins become a tradable commodity immediately after slaughter and are used either as slaughter fee or sold to the owner of the slaughter house or facility, who in turn sells to hides and skins merchants. In addition, they can be sold directly to hides and skins traders. According to the Ministry of Agriculture and Livestock, Zambia produced approximately 1.9 million bovine hides and skins, 201,324 and 10,538 goats and sheep skins respectively; however despite the raw hides and skins being banned under Statutory Instrument 125 of 2003, it was reported that tanneries have gone under because of an acute shortage of hides and skins.

The details of challenges, issues and opportunities which are experienced at every stage of the value chain are discussed in detail in the next chapter. It is worth noting at the onset that every stage when commodities are exchanged there is also an exchange of money. However, when livestock is sold, the livestock buyers/butcherries/slaughter houses only pay a price, which excludes the fifth quarter¹¹. From the explanation given below, it demonstrates that this

¹⁰ http://fsg.afre.msu.edu/zambia/3_livestock_status_in_Zambia_High_level_meeting.pdf

¹¹ The fifth quarter represents an average of 47% in beef tissues and 51% in sheep tissues of total liveweight and yet in the UK only realises 5% of total value (EBLEX 2009). Fifth Quarter tissues are broadly split into two categories edible or co-products (red offal: liver, heart, kidney and tail) and inedible by-products, (green offal: stomach,

challenge is a global phenomenon; however, the loss from it has been minimized in Australia because of the vertical integration of enterprises. The carcass contributes approximately 53% and 49% to the live weight of a bovine and sheep respectively. This implies that farmers' lose 47% and 51% of bovine and sheep weight value, when they sell their livestock in the market. In developing countries such as Zambia, the loss is even higher as the marketing is not organized and most livestock buyers take advantage of the poorly informed communal farmers.

The quality of hides is defined by the absence of damage to the grain surface through which the hair fibers grow. This grain surface damage is visible only after the hide has been partially processed, with the hair being removed to reveal the surface. The tanner, therefore, buys blind on weight, which actively discourages quality high payments. This, and the inability to trace the hide back to the individual producer severely limits the opportunity to add value, and therefore, increase quality. This is one of the major dilemmas in the leather value chain.

Historically the Zambian leather tanning subsector had five tanneries in the 1974 to 1996 period, with an installed capacity of 1,700 hides per day, which translates to 340,000 hides per annum, assuming a year with 200 working days. Under the structural adjustment period, in the period 1990-2000, most of the tanneries capacity utilization shrunk in the face of hides and skins shortages. Currently only two tanneries are operating. It is fundamental to note that the two tanneries, are operating around 80% and 30% capacity utilization, respectively despite the fact that the hides and skins ban is force. The emerging consensus during the workshop was that hides and skins were being exported illegally (smuggling), sub-paragraph 3 (1) of the statutory instrument states that "Subject to the provision of subparagraph (2) no person shall export any raw hides or skins from Zambia. During the consultation workshop, it was clear that despite the instrument being in place its management and implementation was not clearly defined. Figure 5 shows a sharp growth in the export of hides and skins from Zambia despite the existence of an export ban.

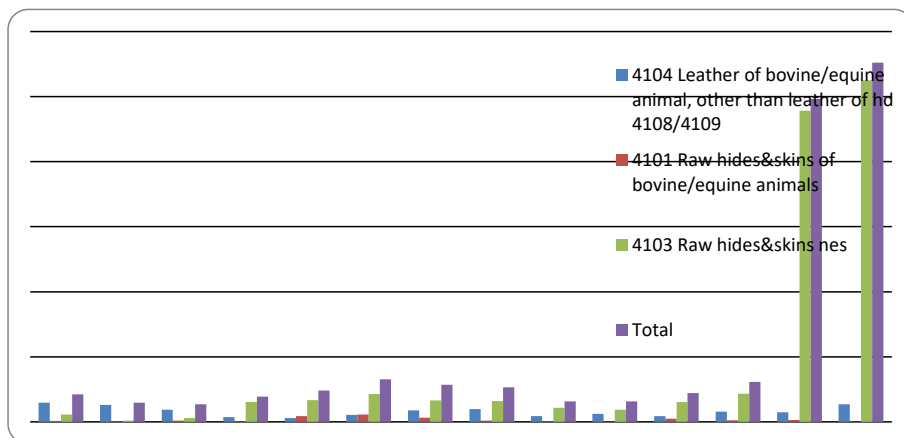


Figure 5: Exports of Articles of Chapter 41

Source: Trade Map (ITC)

digestive tract and hide). Yet for both edible and inedible fifth quarter the primary producer receives no tangible value, and the value the processor receives has fallen dramatically over the last two decades.

The continued shortage of hides and skins for local processing, despite the rising slaughter levels, at a time Zambia has an export ban is an area which requires specific and direct intervention. Stakeholders agreed that the main challenge was lack of enforcement due to lack of collaboration between the Public and the Private Sector. There was a general consensus among the stakeholders that this instrument should be revised and the export tax should be imposed. The realized revenue would assist in funding the enforcement of the regulation.

2.2. The Potential of the Zambia Leather Value Chain

The Potential of the leather value chain of Zambia generally refers to a currently unrealized ability, thus, it reflects the largest possible earnings that a particular value chain can make, assuming all aspects of the chain are operating near or expected full capacity. The export of raw hides/skins, wet blue and crust and also the production of low quality hides and skins entail forgone opportunities with regard to value addition, which could have been attained in Zambia. Put simply, the export of wet blue means the exportation of jobs, foreign currency earning opportunities and other indirect benefits, which could have been generated in Zambia had the large proportion of hides and skins been transformed into finished leather. An export ban has been in place since 2003 in Zambia; however tanneries are reporting acute shortage of hides and skins. More losses are incurred due to the resultant production of low quality hides and skins, which fetches lower prices in the international markets. As it was reported, the prevalence of pre, peri and post slaughter defects was very high in Zambia; this renders more than 80% of hides and skins produced to be categorized as grade three or worse.

A partial equilibrium model was employed to compute the potential losses that Zambia was incurring per annum due to pre, peri and post slaughter defects and the export of 95% plus of total hides and skins in the country in wet blue state. Based on the hides and skins production of 2012, the Zambia leather value chain has the potential of reaching a minimum direct value of USD 460 million per annum.

Gross losses incurred due to the prevalence of pre, peri and post slaughter defects (Table 11) were computed based on equation 1, and the apportionment between pre and peri/post slaughter defects was based on a study by Mwinyihija¹² (2014), which found out that 48% and 52% of defects are attributed to pre and peri and post slaughter defects respectively. The losses incurred on bovine, sheep and goats hides and skins are based on the same equation. See equation 1 below, which was used in the computations of gross pre, peri and post slaughter defects.

Potential Loss Due to Pre, Peri and Post Slaughter defects

$$= \sum G_1 P_1 - \sum (aTQ P_1 + bTQP_2 + cTQP_3 + dTQP_4 + eTQ P_5 + fTQP_6) \quad \text{equation 1}$$

Where

G_1 is 100% first grade

P_n prices with respect to grades 1 to 6

a to f : Ratios of grades of hides

TQ : Total output of hides by a country

Table 11: Estimates of Pre, Peri- and Post-Slaughter Defects on Bovine Hides and Goats/Sheep Skins (2013)

¹² Mwinyihija, M. (2014). A prognosis of the leather sector in Kenya: The upheavals and antidotes associated with value creation. *Management* Vol.4 (1),pp. 21-29.

Type of Hides/Skins	Potential Earnings Assuming all Hides are First Grade	Potential Actual Earnings Based on Quality Variation	Loss	Pre-slaughter	Peri and post slaughter losses
Apportionment Ratio				0.48	0.42
Bovine	39,148,298.40	22,312,797	12,310,508	5,909,044.00	6,401.464.00
Total Estimated	39,148,298.40	22,312,797	12,310,508	5,909,044.00	6,401.464.00

Source: Computations based on FAO data.

The losses, which are incurred due to non value addition, are illustrated in the Table 5 below. The value addition threshold that is expected per stage is shown in the last column of the Table below. The cumulative loss is estimated at USD 406 million, with regard to the second level of loss, which is associated with non value addition. If the loss associated with pre-, peri- and past-slaughter defects, which is illustrated in the table above is taken into account the total loss is estimated at USD 418 million per annum.

Table 12: Value Addition Potential and Estimated Losses

Stage of Processing	Potential Earnings	Current Actual Earnings	Estimated Losses	Value Addition Threshold
Raw hides and Skins Current Value	39,148,298.40	52,513,000.00 ¹³		1
Wet Blue	76,940,680.00	2,892,000.00		2
Crust	115,411,020.00	-		3
Finished Leather	153,881,360.00	-		4
Finished Products	461,644,080.00	114,900.00		12
Cumulative Loss			406,124,180.00	

2.3. The Tanning Subsector

Leather tanning is the process of converting raw hides or skins into leather. Hides and skins have the ability to absorb tannins and other chemical substances that prevent them from decaying, make them resistant to wetting, and maintain their reparability, suppleness and durability. The surface of hides and skins contains the hair and oil glands and is known as the grain side. The flesh side of the hide or skin is much thicker and softer. The three types of hides and skins most often used in leather manufacture are from cattle, sheep, and pigs

2.3.1 The Wet Blue Production Cost Structure and the Implication of Hides and Skins Quality

In the production of wet blue, raw hides and skins commands 85% of input cost, with the balance shared among chemicals, water, electricity and labour. This scenario highlights the importance of raw hides and skins in the production equation of leather. Thus rapid hides and skins prices fluctuation and quality have a serious bearing on the profitability and competitiveness in the production of wet blue. A steep increase or decrease in the prices of hides and skins would impact negatively or positively on the cost of production and consequently on the gross margin¹⁴ of tanning operations.

¹³ This could be an issue of misclassification, or the estimated hides and skins produced are understated in National Statistics

¹⁴ **Gross margin** is the difference between [revenue](#) and [cost](#) before accounting for certain other costs. Generally, it is calculated as the selling price of an item, less the [cost of goods sold](#) (production or acquisition costs, essentially).

According to FAO (2009)¹⁵, a Gross Margin of 25-35% and greater than 45% is considered normal and robust respectively. The Zambian tanning sector is earning an average of 56% gross margin, reflecting a very high profitability potential. The Table below illustrates the costs breakdown in the production of hides and skins equivalent to 58,000-60,000sqft

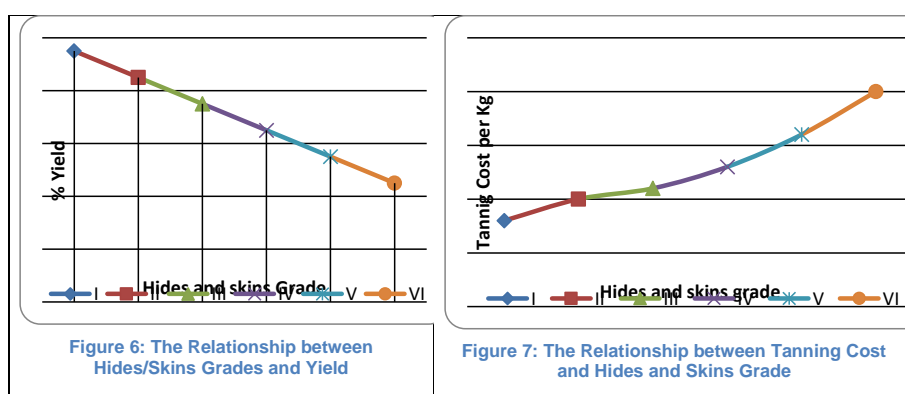
Table 13: Tanning Production Function

Inputs into Wet blue Production	% Contribution to Final Product	USD
Raw hides and skins	85	42,500.00
Chemicals	5	2,500.00
Water & electricity	3	1,500.00
Labour	7	3,500.00
Total Ex Factory Cost for Wet Blue Container	100	50,000
FOB price		78,000.00
Gross Margin	(56%)	28,000.00

Source: Stakeholders and Experts consultations by COMESA/LLPI

In Zambia it was reported that a large proportion of hides and skins were traded at uniform price irrespective of grade category. This situation discourages quality improvement among the primary producers and collectors of hides and skins. Thus the tendency would be for hides and skins collectors to under-salt, as a measure of preserving their profit margin, however on the other hand, this would raise the tanning production cost upwards and thereby squeeze profit margins, as they process poor quality hides and skins.

The Figure below illustrates two important points that the cost of tanning increases as the quality of hides and skins deteriorates. Secondly, there is also a positive correlation between yield and hides and skins quality; as the quality declines the yield also decline. The cost of tanning a kilogram of hides and skins rises from USD0.8 to USD1.6, from first to the fifth grade respectively; consequently the yield declines from 95% to 55% respectively. This pushes up the cost of tanning and consequently reduces the competitiveness of the industry. Therefore, it is imperative that appropriate measures to promote 'quality-based on grades' pricing system and quality improvement (extension services) programs are put in place, as a measure of boosting the Zambia tanning industry in aspects related to profitability and competitiveness.



Source: COMESA/LLPI consultations with experts in the Tanning Industry.

¹⁵ FAO Agribusiness Handbook (2009)

It was reported that more than 60% of hides and skins produced in Zambia are in grade three and five, this implies that the yield range is 45-75%, and the cost of production per kilogram is in the range USD 1.2 to 1.7. Lower yield implies lost resources, processing poor quality hides and skins, whose return in terms of quantity output and monetary return is low. This scenario needs to be reversed as it raises the cost of production, consequently undermining the competitiveness of the value chain. It is therefore imperative that measures should be put in place to reverse this scenario.

2.4. Situational Analysis of SMEs in the Footwear Industry

2.4.1 Overview of the Footwear Supply Chain in Zambia

The average per capita for footwear in Africa is 1.1 pairs per year. With a population of 13 million, Zambia's footwear market is thus estimated at 14.3 million pairs per annum. Assuming an average price of USD20 per pair, the Zambian footwear market is approximately valued at USD286 million dollars. However, this appears to be an overstatement as the majority of Zambians are buying cheaper synthetic made shoes from the Far East whose prices ranges between USD5 to USD10. This, however, excludes duty shoes such as combat, security and safety boots. If this is taken into account this market share increase upwards. There are around five medium enterprises and a host of micro enterprises manufacturing footwear in Zambia and their combined output is not enough to meet this demand. The combined annual output of these enterprises is below 2 million pairs. This implies that 86 % of the market consumes foreign made shoes mainly from the Far East. The majority of micro enterprises are operating in markets using rudimentary tools and lack institutional support with regard to skills development, capitalization and marketing of their products.

The footwear and leather goods subsector is dominated by Micro, Small and Medium enterprises. Large enterprises that used to operate in Zambia, namely Bata, Twinkle Footwear, Ndola Footwear, Mukango Footwear, Malar Industries, Actiza Footwear and Kamra, closed down in the face of challenges associated with liberalisation. This situation has been further worsened, as the tanning sector has remained subdued, thus starving footwear and leather goods manufacturing from a limited supply of finished leather.

SMEs involved in footwear and leather goods manufacturing in Zambia face challenges that are discussed in the subsequent paragraphs. Footwear supply chain presented in the Table 14 below, shows inputs that are required in the manufacturing of footwear. This inadequate local production and a weak dealership and distribution network in supplying the listed inputs in Zambia are demonstrated. The impact of this illustration is the raised transaction costs of SMEs involved in footwear manufacturing and leather goods domains, as they have to transverse the City to purchase these items.

Table 14: Zambia's Footwear Supply Chain

Inputs	Importance	Situation in Zambia
Finished leather	It contributes 50% in terms of value to footwear with leather uppers, thus this is the main input.	There is one tannery producing finished leather, however the varieties are limited and may not be satisfying the market. The SMEs given their small operations may not be in a position to purchase directly from the tannery
Cutting dies	It's a tool, which is used for cutting; it is very important in ensuring speed in cutting and also ensures consistency.	There is no local production in Zambia, however, at the moment most of SMEs who are operating, do not have cutting machines, and use cutting knives. Only a few medium sized enterprises have cutting machines, and they also have the capacity to import these cutting dies.

Inputs	Importance	Situation in Zambia
Lasts	A last is a mechanical form/mould that has a shape similar to that of a human foot. Without a last footwear manufacturing is next to impossible	No local production in Zambia, SMEs depend on secondary imports from Zimbabwe, Tanzania and Kenya. In order to produce comfortable shoes, these lasts' shape and dimension should reflect the average foot shape in a country. Most lasts, which are emanating from China, are meant for the shape and foot size of Chinese; when used in the region, the outcome is an uncomfortable shoe. This is an area which again requires joint action and also support from technical institutes and engineering industry.
Heels/soles	Second important component of a shoe after leather.	There is limited local production in Zambia; however there is limited variety and also low quality. This is an area requiring technical support from the local University to support the production of soles. Most of the high quality soles are imported from Zimbabwe and South Africa.
Accessories	Important especially for finishing sandals and other types of footwear. (rivets and buckles)	No local production in Zambia

Source: Stakeholders Consultations by COMESA/LLPI

The limited supply of the materials listed in the Table 15 is the main weakness in the footwear manufacturing business in Zambia. It is imperative to note that leather is the main input in footwear or leather goods manufacturing business, contributing 40-50% to total cost. Zambia has the potential to produce quality finished leather to support this subsector, which has the potential of creating employment, reduce poverty and also save foreign currency.

The shortage of leather and other inputs may be addressed in the short-run by facilitating SMEs to procure these inputs in bulk jointly. In the medium to long term, there is a need for policy intervention to encourage the production of finished leather. In the region, Ethiopia has instituted a 150% export tax on crust leather and all tanneries are now producing finished leather; however this policy needs to be designed in consultation with the tanning industry, to minimize the losses associated with the policy adjustment lag. The matter on policy adjustment lag is discussed in detail in the section dealing with export tax on hides and skins.

2.4.2 Footwear SMEs Performance

This report is based on a profiling exercise that was undertaken in the four towns and is focused on the following issues: constraints being faced by footwear makers; profitability and machines/tools and loan requirements and repayment capacity under different scenarios. Footwear making is more predominant in Lusaka and Kitwe, thus the initial activities for the cluster will be targeted in the two towns. Shoemakers from Kafue will be encouraged to work with those in Lusaka. Figure 8 shows the geographical distribution of the SMEs, which were profiled.

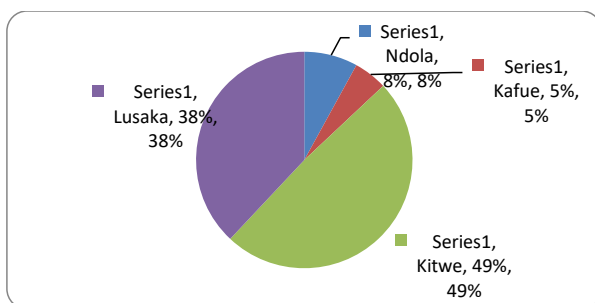


Figure 8: Summary by Geographical Location

2.4.2.1 Social Profiling

Footwear making in the identified clusters is dominated by man as shown in Figure 9 . Only 2 of the 39 interviewed people involved in the footwear cluster are women. These women are not involved in the production of footwear. They own small outlets for supplying leather, soles and other footwear accessories to the shoemakers. These outlets are in Kitwe (Chisokone Market), and are providing an important service given that Kitwe is far away from the tanners and major producers of other footwear accessories. They stock leather, soles, glue and other accessories. However it is important to note that these two ladies need support that would allow them to import quality leather and other accessories from COMESA countries such as Ethiopia, Kenya and Zimbabwe.

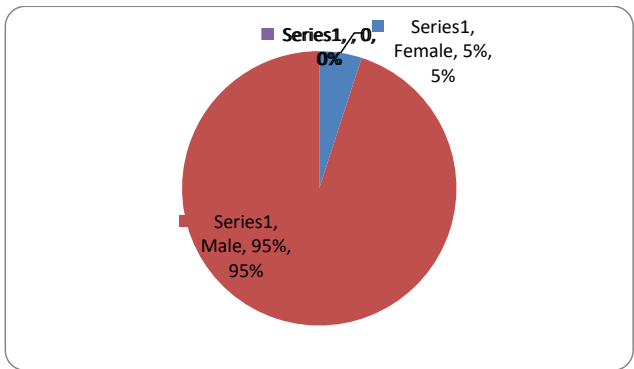


Figure 9: Gender Balance

The footwear manufacturing business is dominated by fairly young people, who are below the age of thirty five years. This is important because these people still have hope about their future and can also be easily trained. Out of the thirty nine, only 4 are above the age of fifty years. See details in Figure 10.

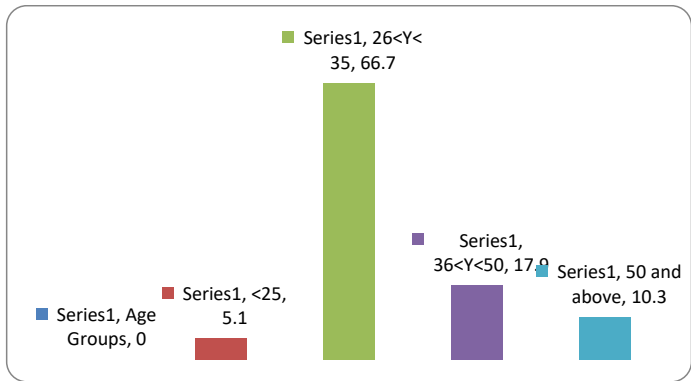


Figure 10: Summary by age Groups

The educational level of the majority of respondents is high, 97.4 per cent have reached secondary school. This scenario points to the fact that this group of people are trainable. See details in Table 15.

Table 15: Summary by Educational Level

Education Level	Percentage
Primary	2.6
Secondary	97.4
Degree	0
Total	100

The majority of the footwear makers have not received a formal or vocational training in footwear production; about 92.3 percent of the respondents were trained by their friends or relatives. This makes it quite imperative that these people be trained in technical production skills of the various stages in footwear production, ranging from cutting, stitching up to finishing. For details see figure 11 below.

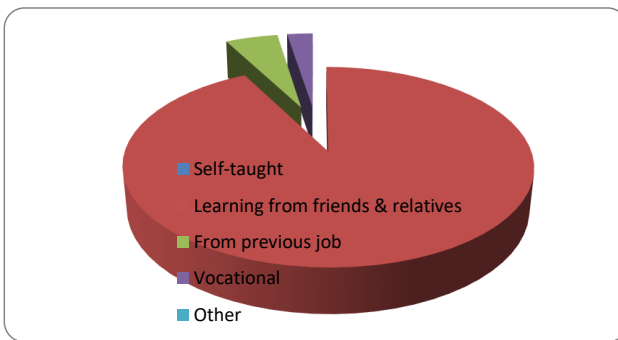


Figure 11: Training Background

Out of 39 respondents only one has received business training, this explains the reason why the majority of these footwear makers are not doing proper costing, recording and even computing the profitability of their business. The absence of this skill, could also explain why the majority of these footwear makers have remained stuck at the same level, after being in business for more than ten years. For details see Table 16.

Table 16: Business Training

Received Training in Business Management	Responses		
	Possible	Actual	Percentage
Yes	39	1	2.6
No	39	38	97.4
Total		39	100

None of the footwear makers have received funding from financial institutions, the majorities (74.3%) have established their business from their own savings and the balance have been funded by friends or relatives. This may explain the fact these enterprises are operating with rudimentary machines as the appropriate machines and tools maybe out of reach of their savings ability. For details see Table 17.

Table 17: Source of Capital Profile

Source of Capital	Percentage
Friends and Relatives	25.6
Own Savings	74.3
Bank Loan	0
Retirement Package	0
Other	0
Total	100

2.4.2.2 Identified Constraints

The shoe makers pointed out that the factors illustrated in Figure 12 were constraining the expansion of their business. For instance all the respondents see shortage of finance and use of inappropriate equipment as major constraints, which were hampering the production of quality products and to increase their capacity utilisation. Lack of suitable working space, small and erratic market are also other key factors, which are undermining the growth of their business. The fact that they are operating in a crowded environment is also undermining their productivity and also customers at times crowded out. The small and erratic market makes it difficult for them to produce volume, as they depend at times on walk in customers who buy one pair at a time. These constraints need to be addressed in order to promote the growth of the footwear clusters. For details see Figure 12 below.

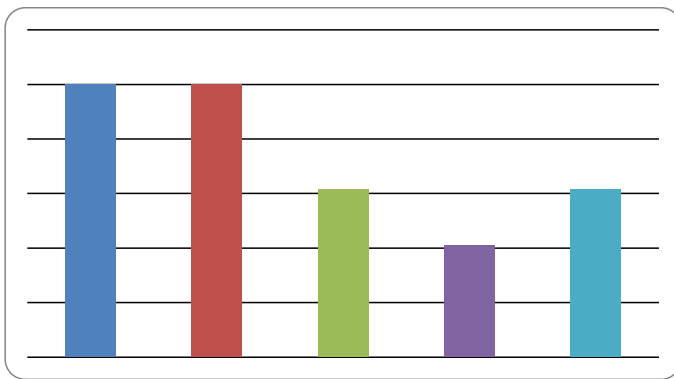


Figure 12: Summary of Constraints

2.4.2.3 Main inputs and Products

The inputs in the production of footwear range from leather, soles, glue and other accessories as listed in Figure 13 below. The average cost of shoes produced by these clusters range from ZK32, 000 for a school shoe to ZK66, 000 for a security boot assuming they are operating at 100 percent capacity. The main cost centre is the sole, which contributes approximately 41.6 per cent, followed by leather at 24.9 per cent. This is partly explained by the fact that quality footwear soles are not manufactured in Zambia and they are being imported from Zimbabwe and from China through Tanzania. The figure below shows the distribution of costs in the production of footwear.

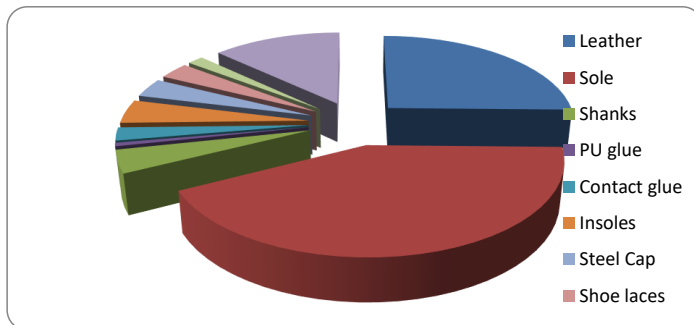


Figure 13: Main inputs in Footwear Production

The shoe makers are currently operating at 32 percent capacity utilization level. The low capacity utilization pushes up the cost of production per unit from a minimum of ZK47, 000 to ZK80, 000. The ex-factory cost per pair varies slightly from cluster to cluster and this mainly because of difference in the rates being paid to the local authorities.

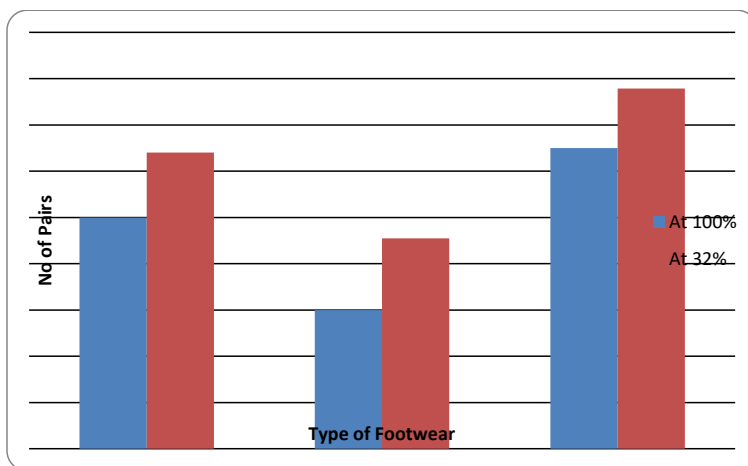


Figure 14: Relationship between Profitability and Capacity Utilisation

The main products being produced by these clusters are school shoes and security boots; however most of the enterprises are in a position to manufacture other types of footwear such as sandals, fashion shoes and gloves. Out of the enterprises interviewed, 43.6 percent can produce a combination of school shoes and boots and the other 46.2 percent can produce school shoes, boots, sandals and fashion shoes. This scenario demonstrates the dynamism of these shoe makers as they are able to produce different models of shoes using rudimentary machines and tools. This shows that these footwear makers are in a position to produce any design and can easily adapt to meet the changing market taste. This is summarised in the table 18 below.

Table 18: Footwear Combinations

	Percentage
School shoes and boots	43.6
School shoes, boots and sandals	5.1
School shoes, boots, sandals and fashion shoes	46.2
School shoes and sandals	2.6
School shoes, boots, sandals, fashion shoes and gloves	2.7
Total	100

The productivity levels on the enterprise vary from five pairs to twenty pairs per day. This is explained by the different levels of skills, resources availability and marketing opportunities. The bulk of the enterprises are producing five to six pairs a day, followed by those producing seven to ten pairs a day. The enterprises with the highest level of production are producing 15 to 20 pairs per day and these normally hire casual workers to meet once they secure big orders. All the enterprises, which were interviewed are prepared to hire more workers if they receive big orders. For details see Table 19.

Table 19: Optimum Output per Day

Pairs Per Day per Person	Percentage
5 to 6	53.8
7 to 10	33.3
15 to 20	12.8
Total	100

2.4.2.4 Type and Estimated Cost of the Machines/Tools in Use and Required

The enterprises operating in the footwear clusters are facing major challenges with respect to machinery and tools; all the enterprises reported that they were operating with inadequate and unreliable machinery and equipment, as summarised in Table 20 This matter is further elaborated in Table 21.

Table 20: Machinery Adequacy and Reliability

Description	Percentage
Machine Adequacy	100
Machine Reliability	100

The footwear makers are operating with limited and inappropriate machinery, equipment and tools. About 79.5 percent of these enterprises are operating with a domestic hand stitching machines, rough motor and rudimentary of homemade tools. This scenario impacts significantly on their productivity, quality and strength of their products. It is therefore imperative that these clusters should be assisted in the capitalisation process, which will enable them to produce quality and durable footwear. Table 21 summaries machine combination per enterprises.

Table 21: Summary of Machine Combination per Enterprise

Machine Combinations per Enterprise	Percentage
Domestic hand sewing machine, roughing machine & tools	79.5
Domestic manual machine, Roughing machine & tools	10.3
Industrial stitching machine, roughing machine and tools	10.3
Total	100.00

Given the machinery gap summarised in table 8 above, enterprises were asked to list the machinery they immediately require to boost their productivity, quality and durability of their products. All the enterprises pointed out that it was imperative that they acquire an industrial stitching machine. The second most popular piece of equipment was the sole press and assortment of hand tools. Table 22 summarizes the machines requirements of the enterprises.

Table 22: Summary of Machine Requirements

Machines	Percentage	Total Market Value (US\$)	
		Unit Price	Total
Industrial Stitching machine	100	3,500.00	136,000.00
Skiving Machine	64.1	2,000.00 ¹⁶	50,000.00
Sole Press Machine	76.9	10,000.00	300,000.00
Tools	76.9	2,000.00	60,000.00
Total			546,000.00

2.4.2.5 Profitability Analysis

¹⁶ Chinese Machine

The interviewed enterprises are making an average of 43 and 31 percent gross and net profit margin respectively assuming they are operating at 100 percent capacity. However this varies by shoe type the lowest is security boots and the highest is fashion shoe as summarized in table 10 below. Their profitability situation is very healthy under optimum production scenario and with further training and also allowing them to purchase shoe soles from cheaper suppliers, their profitability margin can easily expand. Despite these health profit margins under optimum capacity, the challenge is that these enterprises are producing at 32 percent of their capacity and also their turnover is slow because they usually depend on walk in customers who pick one pair per time. At the 32 percent capacity utilisation the net profitability situation deteriorates to an average of 8 percent. The net profitability of school shoes and security boots collapses to -17.8 and +10 percent respectively. See details in the figure 15 below.

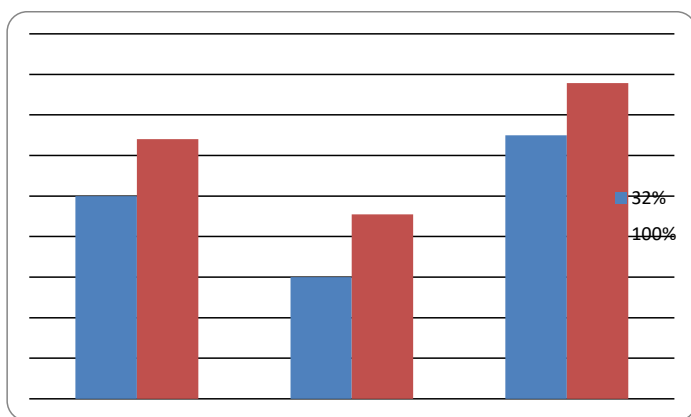


Figure 15: Profitability Analysis

2.4.2.6 Banking, Loan Requirements and Repayment Capacity SMEs Relationships with Banks

The enterprises, which were interviewed in all the sites, have a weak relationship with banks, as only 23 percent hold bank accounts. The majority do not hold bank accounts for a variety of reasons, ranging from social and economic factors. The social former relate to the fact that the enterprises feel banks are meant for high class people and on the later the bank charges are considered to be too prohibitive. For details see Table 23.

Table 23: SMEs Relationship with Banks

Are in Possession of a Bank Account	Percentage
Yes	23
No	76.9
Total	100

Of the nine enterprises holding bank accounts, 77.8 percent are saving with “Investrust” bank, which could be an indication that the given bank is favourable for SMEs. For details see Figure 16.

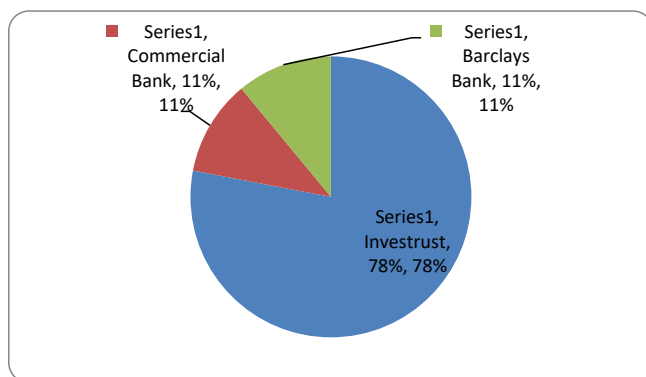


Figure 16: Popular Banks for SMEs

Loan Requirements and Repayments Capacity

The loan requirements of the SMEs are informed by the information contained in Table 22 above, which lists the types of machines, which they require in order to improve their operations. The total loan requirement for the group of 39 enterprises is estimated at USD 546,000. This implies an average minimum loan per enterprise of USD 14,000. However this loan requirement maybe reduced by ensuring that equipment such as skiving and sole press machines are centralised and shared by enterprises. The centralised machines may be owned by different enterprises within the cluster that will then extend the service for a fee to other enterprises. This will reduce the minimum loan requirement for capital to USD 5,500, which will cater for the industrial sewing machine and tools. This loan requirement is subjected to loan repayment capacity (sensitivity analysis) based on their profitability margin estimated in Figure 15. The two scenarios used are based on the current capacity utilisation of 32% percent and that of 100 percent assuming all the required inputs are made available. An array of interest rates is used ranging from 5 to 25 percent. See the details in Table 24.

Table 24: Loan Repayment Capacity under Different Scenarios

Description	Man Fashion Shoes		School Shoes		Security Boots	
	@100% Capacity	@ 32% Capacity	@100% Capacity	@ 32% Capacity	@100% Capacity	@ 32% Capacity
Net profit	6072416	1335027	1002066	-287485	3025541	360026
Loan # @ 5% per annum	2 550 625	2 550 625	2 550 625	2 550 625	2 550 625	2 550 625
Net after loan repayment	3 521 791	-1 215 598	-1 548 559	-2 838 110	474 916	-2 190 599
Loan # @ 10% per annum	2 672 083	2 672 083	2 672 083	2 672 083	2 672 083	2 672 083
Net after loan repayment	3 400 333	-1 337 056	-1 670 017	-2 959 568	353 458	-2 312 057
Loan # @ 15% per annum	2 793 541	2 793 541	2 793 541	2 793 541	2 793 541	2 793 541
Net after loan repayment	3 278 875	-1 458 514	-1 791 475	-3 081 026	232 000	-2 433 515
Loan # @ 20% per annum	2 915 000	2 915 000	2 915 000	2 915 000	2 915 000	2 915 000
Net after loan repayment	3 157 416	-1 579 973	-1 912 934	-3 202 485	110 541	-2 554 974
Loan # @ 25% per annum	3 036 458	3 036 458	3 036 458	3 036 458	3 036 458	3 036 458
Net after loan repayment	3 035 958	-1 701 431	-2 034 392	-3 323 943	-10 917	-2 676 432

The situation illustrated above reflects that the SMEs, with their current capacity utilisation of 32 percent are not in a position to repay a loan of USD5, 500 even at the minimum interest rate of 5 percent. However if they operate at 100% and are only producing man fashion shoes they are able to repay the loan even at an interest rate of 25 percent per annum. For school shoes they are not even in a position to repay the loan even when operating at 100 percent capacity. On the other hand, with security boots they retain a positive balance at a maximum repayment rate of 20 percent, however the net shrinks to Zk110, 000.

2.5 Trade Analysis

2.5.1 Exports of Articles of Chapter 41 and the Impact of Export Ban

In 2003, Zambia introduced an export ban on hides and skins, governed under Statutory Instrument No. 125 of 2003, in an effort to improve supplies to domestic tanneries, which were facing acute shortage of hides and skins. Bovine animals slaughter rose from 600,000 in 2003 to 1.9 million in 2014. The potential export value of wet blue, assuming all bovine hides were collected at tanned stage rose from around US\$25 million in 2003 to close to US\$100 million in 2014. However the actual earnings remained below US\$5 million, and only shot up in 2012. Paradoxically this sharp rise was attributed to articles of sub heading s 4101 to 4103, which are raw hides and skins according to the Harmonised system. They rose from US\$4.5 million in 2012 to US\$48 million in 2013, this is despite the fact that the Export Ban instrument was still in force. See the trends in Figure 17.

Exports in US'000

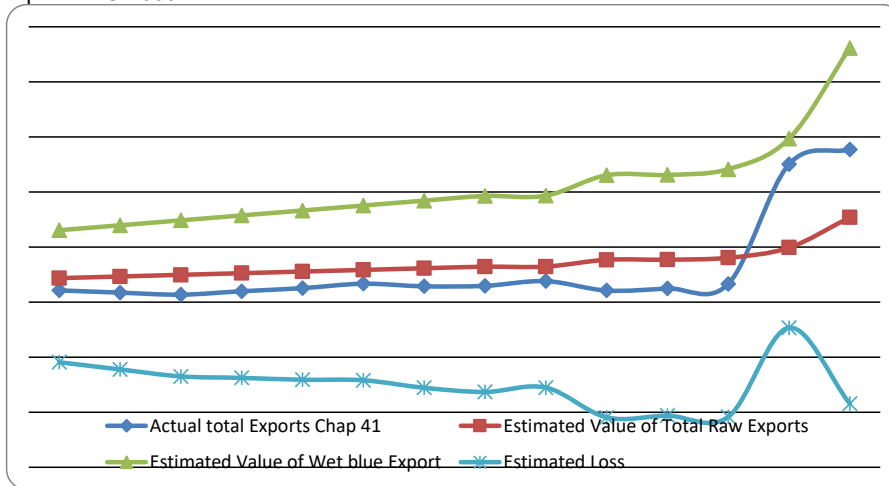


Figure 17: Trends in Exports of Articles of HS41

Source: COMESA/LLPI computed from ITC Trade Map

From Figure 17, the potential loss, has widened from 2003 to 2012, and only shrunk sharply in between 2012 and 2013. It is imperative to note that the Zambian situation contrasts sharply with experienced in Ethiopia, Kenya and Zambia, whose export restriction policies, have contributed significantly in export earnings, generated from the export of value added products, such as wet blue, crust and finished leather. The other three countries employed export tax rather than export ban, thus it is imperative that Zambia may need to draw lessons from the three countries.

During the consultation workshop the majority of stakeholders argued that there was a shortage of hides and skins in Zambia mainly because raw hides and skins were being exported illegally. There is a need to review the implementation procedures of this instrument, as a mechanism of identifying the source of the problem, which is resulting in the continued export of raw hides and skins.

2.5.2 Trade of Footwear

Zambia trade in footwear is biased towards imports and the expense of exports. Exports have rose from US\$ 0.7 million to US\$1.1 million in the period 2001 to 2014 respectively. On the other hand import increased sharply from US\$ 6.8 million to US\$ 35.7 million in the same period. The trade balance between imports and exports of footwear has widened six fold, from US\$ 6 million to US\$34 million in favour of imports. This is a signal that footwear consumption is rising in Zambia, and thus there is potential for supporting the development of SME Clusters. Figure 18 illustrates trends in imports and exports of footwear by Zambia from the Rest of the World.

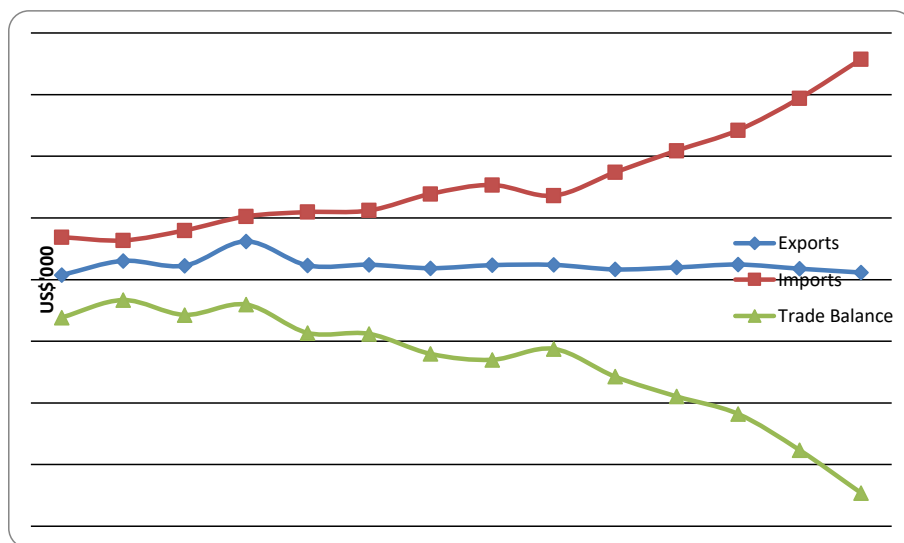


Figure 18: Trends in Imports and Exports of Footwear

Support in the development of SMEs Clusters is imperative; as the market for footwear is growing rapidly, this would create employment and also save foreign currency. This would assist in the attainment of the Vision 2030 and SMEs policy.

2.5.3 Regional Comparative analysis

A comparative analysis of the Zambian leather value chain is undertaken, as a measure of gauging its competitiveness. The comparative analysis is done with respect to Burundi, Egypt, Ethiopia, Kenya, and, Zambia. The comparative analysis would assist Zambia to draw practical lessons from other countries in the region. This scenario reflects Zambia's dependence of the export of minerals such as copper.

2.5.3.1 Competiveness Analysis

Exports as a share of Total Exports (%): This index refers to the share of an industry's exports in relation to a country's total exports; hence it shows the importance of this industry in the national export portfolio. Zambia's export ratios for both chapters 41 and 64 are below the regional average. Burundi and Rwanda, which are far smaller countries in turn of area space and livestock populations, have superior ratios, than Zambia.

Exports as a share of World Exports (%): This index shows, for a specific industry, the percentage share of exports of the selected country in total world exports. The world market share indicates how important a specific national industry is in terms of global export for the industry under review. Zambia's ratio of chapter 41 and 64 are below and at par with regional averages respectively.

Growth of Export in Value (% PA): This index is based on the least squares method, shows the average annual percentage growth of export values over the most recent 5-year period. Industry with rapid export growth in value terms suggest that the country is competitive on the world markets, while stagnant or declining growth rates indicate the reverse. Everything else being equal, fast growing exports, even in small absolute numbers, point at product groups for which the country has a particular export potential. Zambia reflects inferior ratios, by the regional standards, especially with regard to chapter 64, where the ratio has actually retreated. See details in the Table 25 below.

Table 25: Summary of Competitiveness Indicators of Zambia and other COMESA Countries

Country	Contr. To total Export (%)		Contr. To total World Export (%)		National Growth rate (%)		Revealed Comparative Advantage Index		Lafay Index	
	41	64	41	64	41	64	41	64	41	64
Burundi	0.38	0.03	0	0	-41	140	2.2	0	0	0
Egypt	0.37	0.03	0.36	0.01	24	3	2.2	0	0	0
Ethiopia	3.84	0.77	0.22	0.01	-7	8	22.6	1.2	1	0
Kenya	1.88	0.37	0.25	0.01	12	-21	11.1	0.6	1	0
Rwanda	2.4	1.36	0.04	0.01	40	61	13.8	2.2	1	0
Zambia	1.77	0.19	0.14	0	36	11	10.4	0.3	1	0
Zambia	0.16	0	0.03	0	8	-62	0.9	0	0	0
Zambia	1.56	0.04	0.09	0	30	-14	9.2	0.1	1	0
Average	1.5	0.3	0.1	0.0	12.8	15.8	9.0	0.3	0.6	0.0

Source: ITC

Notes: Chapters 41 and 64, are harmonized system for raw hides, semi processed and finished leather and footwear respectively.

Specialization (Balassa Index/RCA Index): This index, known by the description "Revealed Comparative Advantage" (RCA), tries to identify product groups where the targeted country has an obvious advantage in international competition. This is of special importance in order to promote trade of products that are more likely to be competitive. However, for trade analysis, it is more appropriate to consider RCA simply as an Index of Specialization (IS).

If it takes a value of less than 1, this implies that the country is not specialized in exporting the product. Similarly, if the index exceeds 1, this implies that the country is specialized in exporting the item. Chapter 41 exports stands at 0.9, which reflects that Zambia is not specializing in the export of the given commodity, and its performance is below the regional average, which stands at 9.

2.5.3.2 Trade Policy Comparison

Zambia's trade policy, as reflected by the main trade instruments MFA and preferential tariffs are not significantly different from some of the selected comparators listed in the table below. See details in the Table 26.

Table 26: Trade Policy Instruments Comparisons

Countries	MFN (%)		Ethiopia (%)		COMESA/FTA (%)		EAC/SADC (%)	
	41	64	41	64	41	64	41	64
Burundi	10	25	9	22.5	0	0	0	0
Egypt	0	35	0		0	31.5		
Ethiopia	0	35	0		0	31.5		
Kenya	10	12	1	2.5	0	0	0	0
Rwanda	10	25	9	22.5	0	0	0	0
Zambia	10	25	9	22.5	2	5	0	0
Zambia	15	25	13.5	22.5	0	0	0	0

Source: ITC Market Access

2.5.3.3 Trade Policy on Hides and Skins

The trade policies on hides and skins export currently obtained in selected regional countries, and the actual impact, which have been registered in the past years are summarized in the Table 27 below. The export restriction policies based on export tax has generally contributed to the growth of the tanning sector in the three countries, as reflected by the number of new tanneries which were established and also the export values.

Table 27: Summary of Hides and Skins Export Policy and Impact

Country	Nature of Policy	Recorded Impact	General Comment
Ethiopia	Punitive export tax on raw hides and skins up to crust leather.	The sector has grown significantly, with approximately 28 tanneries operating and a sizeable number of footwear making factories and thousands of SMEs	The implementation of such a policy should be supported by competent institutions and complimented with other support measures. In some of the countries, which have implemented this kind of policy there has been reports of hides and skins being exported through second party countries (smuggling).
Kenya	Export tax on raw hides and skins	The industry is showing great recovery from the effects of Economic Structural Adjustment, and exports from the sector has grown from USD10.6 million in 2001 to USD166 million in 2012, dominated by wet blue	The Zambian case is unique, because the export regime of hides and skins is based on a ban, however in the other three countries they are using an export tax. Ethiopia, Kenya and Zambia, have been able to grow their exports under the export tax regime, however in Zambia the reverse is true.
Zambia	Export tax on raw hides and skins	This has seen the number of tanneries rising from one to seven, and export value from USD25 in 2003 million to USD63 million in 2013	
Zambia	Export ban Since 2003	Export of wet blue has stagnated over the past 10 years, and there is acute shortage of raw hides and skins	

2.6 Conclusion

This chapter has discussed and demonstrated quantitatively the issues pertaining to losses being incurred because of exporting wet-blue, and also the potential export earning if value addition is achieved in Zambia; trade dynamics, competitiveness and performance of the SMEs in the footwear subsector. The next chapter summarizes issues, which were generated during a Stakeholders Participatory Workshop, which was facilitated by COMESA/LLPI, in Lusaka, Zambia.

CHAPTER III: PARTICIPATORY ANALYSIS OF THE VALUE CHAIN

3. Introduction

The general trend in development policies and institutions is for greater participation in development planning and implementation by a wide range of interest groups, including local communities. This way, participants actively contribute to the planning process and implementation rather than passively receiving information from outside experts, who may not have local understanding of the issues. The approach encourages people to share information, learn from each other, and work together to solve common problems. As people become more experienced with the approach, they take increasing responsibility for planning their own learning lessons.

The main anchor of the strategy formulation was participatory. This compliments with one-to-one meetings with SMEs during the baseline survey of SMEs; this was followed with meetings and site visits to slaughter houses and hides and skins traders. The information that was generated through these processes identified the key constraints that are undermining the performance of the leather value chain in the Zambia.

The Participatory Workshop held in Lusaka and participants were drawn from the various segments of the value chain, from city and peri-urban areas of Kampala and, other districts of Zambia. The main objective of the Workshop was to generate, moderate, collate and prioritize of important issues that have a bearing on the performance of the leather value chain. Participants raised various issues relating to governance, technical, social and economic issues, which were influencing the relationship between the stakeholders at every stage of the value chain, and how they were cumulatively contributing to the weaker performance of the leather chain.

3.1. Distribution of Workshop Participants

In order to generate diverse views and opinions, and thus generate a holistic picture of the issues impacting the performance of the lather value chain in Zambia, a heterogeneous group of participants were invited to the workshop. Thus the participants were drawn from the various segments of the leather value chain, relevant Government Ministries, Departments and Agencies from Zambia. The mix of participants led to the generation of an unbiased national view of the issues currently impacting the performance of the leather value chain.

Involving local communities in the decision making process ensures communal ownership and generates support for development projects. Strategic formulation processes, which are participatory, usually address the key issues that need to be addressed for the sector to develop. In addition, it assists in enhancing the buy-in and commitment by stakeholders in their implementation.

3.2. Issues Impacting on the Performance of the Leather Value Chain

The issues which were generated during the stakeholders meetings, and also through one to one meetings with enterprises, are summarized in a SWOT and Benchmarking analysis in Table 22 and 29, respectively.

3.2.1. SWOT Analysis

The SWOT analysis has been in use for several decades now. It provides business strategists with a means to articulate the strategic fit for an organization between its resources/capabilities and the particular demands of its competitive marketplace. The specific objective of SWOT analysis is to determine the best way for a firm to use its strengths to exploit opportunities,

while also identifying both the firm's weaknesses and strengths against perceived threats. The Workshop participants validated these issues, and agreed that strategic interventions which directly respond to these issues should be crafted. Thus, the strategic intervention should seek to further strengthen the **S**trengths, deal with the **W**eaknesses, capitalize on the **O**pportunities and tackle the **T**hreats. The SWOT analysis is summarized below in Table 28.

Table 28: SWOT Analyses of the Zambian Leather Value Chain

Stages	Strengths	Weaknesses	Opportunities	Threats
Cross Cutting	<ul style="list-style-type: none"> • Rapid growing economy • Increased livestock population • Increased production of hides and skins • Political stability; • Tried and tested democratic transition of Government; 	<ul style="list-style-type: none"> • Inadequate enforcement of the hides and skins export ban; • Limited collaboration among Public and Private Sector institutions in the management of the Hides and Skins export ban • Absence of an assessment mechanism of the hides and skins export ban despite the fact that it has been in place for 10 years • Limited access to suitable finance; • High cost of finance in comparison to rate of return in the industry • Limited or lack of collaboration of chain players • Limited support or collaboration with Academia, Private and Government • Weak information systems • The Import Tariff Structure does not promote value addition 	<ul style="list-style-type: none"> • The existence of an export ban policy • Large scope for value addition • Growing domestic, regional and international market for value added products • Large pool of trainable work force 	<ul style="list-style-type: none"> • Global Economic Slow down • Synthetic materials • Influx of second hand leather products
Hides and Skins Production	<ul style="list-style-type: none"> • Increased livestock population • Increased production of hides and skins • Growing demand for meat, increasing the slaughter rates; • Ne initiatives to improve livestock production and productivity 	<ul style="list-style-type: none"> • Low livestock base • The application of a uniform price across all hides and skins grades • Farmers are poorly organized to produce and market quality livestock • Poor or inadequate enforcement of the hides and skins export ban • Very low prices of hides and skins by regional standards • Absence of a structured system to support the production of quality hides and skins; • Weak or inadequate extension support • Poor handling of live animals; • Weak animal husbandry system • Poor slaughter facilities • Poor flaying and conservation techniques; • Poor quality of hides and skins • Uniform price on hides and skins irrespective of grade 	<ul style="list-style-type: none"> • Improved reorganization of the industry following the launch of the Zambia Leather Industry • Renewed interest by Government to support the sector • Renewable resource • Increased demand of meat due to rising standards of living 	<ul style="list-style-type: none"> • Hides and skins being smuggled to neighboring countries • Quality of hides and skins continues to deteriorate; • Lower local prices encouraging smuggling;
Tanneries	<ul style="list-style-type: none"> • Dominance of one vertically integrated tannery , help to keep 	<ul style="list-style-type: none"> • Inefficient vegetable tanning technology • Weak capacity and skills to produce variety of finished leather; 	<ul style="list-style-type: none"> • Declining performance of Zimbabwe leather sector 	<ul style="list-style-type: none"> • Increased competition from synthetic and

Stages	Strengths	Weaknesses	Opportunities	Threats
	<ul style="list-style-type: none"> value of the fifth quarter in the chain • Available Production Capacity to produce up to wet blue • Available work force 	<ul style="list-style-type: none"> • High production costs including labour and chemicals • Inadequate technology, technical and production management skills; • Dependent on the importation of the bulk of the chemicals; • Narrow product distribution channels • Limited or no interest to produce finished leather; • Absence of Government policy support to promote production of finished leather; • Small market size for finished leather in Zambia, as SMEs are poorly organised; 	<ul style="list-style-type: none"> • Growing domestic and regional demand for finished leather • High value addition opportunities from wet blue to finished leather • Growing international demand of leather products; • Renewed regional and international interest to support the industry • Government interest to develop a sector specific policy 	<ul style="list-style-type: none"> imported second hand products; • International markets view Zambia as a raw material supplier rather than finished leather;
Manufacturing	<ul style="list-style-type: none"> • Large pool of trainable human resources; • Large pool of SMEs operating across most urban areas in Zambia 	<ul style="list-style-type: none"> • Inadequate machinery and equipment • Limited availability of quality finished leather and accessories; • High cost of finance • Inadequate technical training facilities; • Limited collaboration with upstream and downstream chain players • Weak implementation of policy to set up incubators as stated in Government policy¹⁷ • Absence or lack of qualified footwear and leather goods designers; 	<ul style="list-style-type: none"> • Increased interest by Government and COMESA/LLPI to support the development of Clusters • Growing domestic and regional demand for finished leather • A big and growing market deficit for footwear; • Government interest to develop a sector specific policy; • Potential Government procurement for military, policies and other Government institutions 	<ul style="list-style-type: none"> • Intense competition from cheaper imports from Far East;
Support Institutions		<ul style="list-style-type: none"> • Under equipped Technical Training Centres • Limited interaction with National Standards Bureau; • Limited support and interaction with Academia; • No advanced specialized courses to support the leather value chain 	<ul style="list-style-type: none"> • Renewed interest by Academic institutions to work with the sector 	

¹⁷ Sixth National Development Plan

3.2.2. Gap Analysis of the Zambia Leather Value Chain

Benchmarking is a way of discovering what is the best performance being achieved – whether in a particular value chain, by a competitor or by an entirely different industry. This information can then be used to identify gaps in an organization's processes in order to achieve a competitive advantage. Gap analysis is synonymous with benchmarking; it is an attempt to take the focus outside the Zambia Leather Value Chain, business size category and even outside the country. It leads to the identification of generic insights into the value chain's key drivers of success. The Gap analysis was taken to analyze the Zambia leather value chain vs. Ethiopian leather value chain. The use of this tool is important in the sense that it assists in building awareness among the Zambia leather value chain stakeholders about the fundamental factors for building competitiveness. Limited knowledge about factors that are driving success of other similar enterprise within or outside the country undermines innovativeness. The main aspects of a benchmarking analysis are: Focuses on best practices; Strives for continuous improvement; Partnering to share information; Needed to maintain a competitive edge; Adapting based on customer needs after examination of the best. The Gap analysis findings are presented in Table 29.

Table 29: Gap Analysis of the Zambian Leather Value Chain

Critical Success Factors	Importance	Zambia	Matured Footwear Supply chain	GAP	Comment
Livestock base	Has a bearing on the potential of hides and skins availability	1	5	-4	Zambia's livestock size is far lower than that of Ethiopia; however it is imperative to note that Thailand is among the top ten global producers of footwear, despite the fact that it has a very negligible livestock base. It therefore implies that the livestock base may be a necessary but not sufficient condition for growing the leather value chain.
Off-take rate	The most important determinant of hides and skins production	5	5	0	Zambia has a higher off take rate than Ethiopia; however it is from lower livestock base.
Animal Husbandry and extension Service	The state of animal husbandry and extension services has a bearing on the frequency of pre-slaughter defects.	5	5	0	The animal husbandry management issues in the two countries are almost the same.
Peri-Slaughter	The skills and handling practices contribute to the absence or presence of cuts, ganges etc. on the hides and skins produced.	5	5	0	Ethiopia and Zambia share the same challenges, as a significant number of livestock is slaughtered in poorly organized slaughter facilities.
Post-Slaughter	The level of preservation techniques, handling and transportation are important in ensuring that hides and skins are delivered to the tannery in the desired state.	2.5	5	-2.5	The improved awareness on the economic importance of hides and skins in Ethiopia has impacted positively on the preservation techniques.
Number of Tanneries, which produce finished leather	This reflects the absorption capacity of the material produced	0.5	5	-4.5	Ethiopia has approximately 28 tanneries which are fully functional against 2 in Zambia.
Finished leather	It contributes 50% in terms of value to footwear with leather uppers, thus this is the main input.	0.5	5	-4.5	Less than 5% of wet blue produced in Zambia is transformed into finished leather.
Cutting dies	It's a tool, which is used for cutting; it is very important in ensuring speed in cutting and also ensures consistency.	0	5	-5	No local production of cutting dices, most of the cutting is done manually.
Lasts	A last is a mechanical form/mould that has a shape similar to that of a human foot. Without a last, footwear manufacturing is next to impossible	0	5	-5	No local production of lasts, and they are in short supply.
Heels/soles	Second important component of a shoe after leather.	1	5	-4	Limited local production in Zambia, as opposed to Ethiopia

Critical Success Factors	Importance	Zambia	Matured Footwear Supply chain	GAP	Comment
Accessories (e.g. rivets and buckles)	Important especially for finishing sandals and other types of footwear.	1	5	-4	No production of accessories in Zambia and to make it worse, the accessories are not readily available in local markets. Most of the accessories are also imported into Ethiopia, however they are readily available.
Collaboration	Collaboration and networking amongst value chain is very important in building synergies and promotes joint action, which normally leads to improved competitiveness.	1	5	-4	Whereas there are registered associations, collaborations in areas of joint procurement, production and marketing, which are critical in boosting economies of scale have not yet been implemented.
Relationship with Academia	Research, development and incubation are the bedrock of innovation in production development and entrepreneurship.	0	5	-5	Nonexistent in Zambia, where Ethiopia has a fully fledged Leather Industries Development Institute (LIDI), which is funded by Government.
Relationship with Government	Government support with regard to policy, supply and demand aspects is fundamental for industrialization. Most countries have grown at the back of Government policy, financial and procurement support.	1	5	-4	Limited relationship with Government and Academia. In Ethiopia LIDI is working with Universities, which are offering degrees and diplomas in leather technology.
Access to finance	Availability of finance with terms, which boosts industrial viability is of paramount importance	0	5	-5	This is one of the major constraints in the industry as finance is available at minimum lending rates of 22% plus collateral. The Ethiopian Government is actively involved in supporting the leather sector financially.
Equipment and machinery	Improved productivity and quality of products is greatly influenced by the availability of adequate and suitable machinery and equipment	2	5	-3	Most SMEs are using basic, old and rudimentary machinery in Zambia. In Ethiopia most SMEs display more or less the same characteristics with those in Zambia. However reorganization with regard to Clustering in rapidly changing the operations of SMEs in Ethiopia.
Labour productivity	High labour productivity is very important given the intensity in the use of labour in the footwear supply chain.	4	5	1	Zambian to significantly different with Ethiopia on labour productivity
Skilled manpower	Footwear production is labour intensive, hence there is a need of highly skilled labour force to ensure the production of quality footwear	1	5	-4	Limited training; most SMEs have received short training courses from UNIDO and COMESA/LLPI in Zambia. In Ethiopia there is a large pool of trained personnel.
Industrial Collaboration	Industrial association is important in building industrial synergies and also engaging with policy makers. Robust organization improves the	1	5	-4	The industry in Zambia is disjointed and most of the associations have no viable Secretariats, whereas in Ethiopia the leather

Critical Success Factors	Importance	Zambia	Matured Footwear Supply chain	GAP	Comment
	enactment of supportive policies and also financial and infrastructural support from Government				association is well organized and work hand in hand with Government on policy formulation and implementation.
Hides and Skins export policy	Ensuring the availability of hides and skins	5	5	0	Both countries have punitive export restriction policies.
Implementation of Hides and Skins export restriction policy		0	5	-5	Ethiopia is very effective in the implementation of export restriction policy.
	Total				

Source: Stakeholders Consultations by COMESA/LLPI

3.3. Conclusion and Emerging Priority Intervention Areas

The SWOT and Gap analysis has identified key areas that require attention in the Zambia leather value chain strategy. A comparison of weaknesses and gaps identified using both tools, shows a convergence of key entry points of intervention. Based on the Gap Analysis, an aspect that scored below -2.5 point was selected and then validated with respect to issues, which were identified as weaknesses in the SWOT analysis. These issues are illustrated in Table 30.

Table 30: Summary of Critical Intervention Areas

Critical Success Factors	GAP	Relation to SWOT Analysis: Weaknesses	Level of Importance – Stakeholders Score(s)	Cost of Implementation
Livestock base	-4	<ul style="list-style-type: none"> Low livestock base 	High	Low
Number of Tanneries, which produce finished leather	-4.5	<ul style="list-style-type: none"> Inefficient vegetable tanning technology 	High	Low
		<ul style="list-style-type: none"> Weak capacity and skills to produce variety of finished leather; 	High	High
Finished leather	-4.5	<ul style="list-style-type: none"> Limited or no interest to produce finished leather; Absence of Government policy support to promote production of finished leather; 	High	High
Cutting dies	-5	<ul style="list-style-type: none"> Limited collaboration with upstream and downstream chain players Weak implementation of policy to set up incubators as stated in Government policy¹⁸ 		
Lasts	-5		High	High
Heels/soles	-4		High	High
Accessories (e.g. rivets and buckles)	-4		Medium	
Collaboration	-4	<ul style="list-style-type: none"> Limited collaboration with upstream and downstream chain players 	High	
Relationship with Academia	-5		High	Low
Relationship with Government	-4		High	Low
Access to finance	-5	<ul style="list-style-type: none"> Limited access to suitable finance; High cost of finance in comparison to rate of return in the industry 	High	High
Equipment and machinery	-3	<ul style="list-style-type: none"> Weak implementation of policy to set up incubators as stated in Government policy¹⁹ 	High	High/Medium
Skilled manpower	-4	<ul style="list-style-type: none"> Absence or lack of qualified footwear and leather goods designers; Inadequate technical training facilities; 	High	Medium
Industrial Collaboration	-4	<ul style="list-style-type: none"> Limited collaboration among Public and Private Sector institutions in the management of the Hides and Skins export ban Limited collaboration with upstream and downstream chain players Weak implementation of policy to set up incubators as stated in Government policy²⁰ 	High	Medium
Implementation of Hides and Skins export restriction policy	-5	Hides and skins being smuggled to neighboring countries	High	Medium

¹⁸ Sixth National Development Plan

¹⁹ Sixth National Development Plan

²⁰ Sixth National Development Plan

Based on the above summary of issues, seven inclusive strategic objectives are proposed and they read as follows:

- Develop 20 Footwear and Leather Goods SMEs Clusters, each with a minimum membership of 20 SMEs;
- Improve the production and collection of quality hides and skins;
- To facilitate Resource Mobilization and Policy support for the Growth of the Value Chain;
- Improve collaboration and Policy implementation across the value chain;
- Facilitate the production of high quality finished leather in an environmentally sustainable manner;
- Facilitate intra and international trade growth of the value chain;
- Facilitate Government Procurement of domestically produced footwear and leather goods.

The attainment of the given strategic objectives would generate outputs and outcomes that would transform the Zambia leather value chain to be globally competitive, as measured by growth in the production and exports of value added products, such as footwear, leather garments and other leather products. Consequently; this would improve the leather value chain's contribution to GDP, employment creation, foreign currency earnings, and would have a multiplier effect, generated by its linkages with other subsectors such as transport and logistics, chemical, textile and other service providers.

CHAPTER IV: STRATEGY

4. Introduction

The growth of the Zambia leather sector would depend on the implementation of strategic interventions, which have the potential for unlocking at the various stages of the leather value chain. The proposed interventions are in line with the overall Vision and Aspirations of Zambia as a country as articulated in Vision 2030, and supported by the various National Development Plans (NDP).

This Chapter presents the Strategy's response issues, which were identified in the previous Chapters. The overall objective of the Strategy is to transform Zambia's leather value chain from the production and export of raw materials and partly processed products to the production and export of value added products such as finished leather, footwear and leather garments.

4.1. Vision and Mission

Vision

To be among the top ten subsectors in Zambia with regard to competitiveness by 2025.

Mission

To transform the Zambian Leather Value Chain into a modern and competitive subsector specializing in the production of value added products through the application of modern and cleaner technologies, collaboration, capacity building, effective policy formulation and implementation and resource mobilization.

4.2. Strategic Market and Growth Goals

In accordance with the Vision and Mission of the Strategy, the Stakeholders identified specific target markets for selected products. The overall market direction shifts the focus of the Leather Subsector towards the production of value-added leather products, such as crust, finished leather, footwear and leather goods, for the domestic and export markets. The ultimate objective is to foster the production and export of value added products so as to promote job creation, income and foreign exchange generation and economic growth. See the products and market targets illustrated in the Table 31:

Table 31: Target Market

	Wet blue	Crust leather	Finished leather	Leather Goods
Domestic			After 2 years	<ul style="list-style-type: none">Expand production in yr 1 and 2 based on imported leatherYear 3 depend on locally produced leather
Export	ongoing	After 1.5 years	In year 3	In year 4 onwards

In order to improve accountability, it is important to introduce quantifiable indicators, which would be used as benchmarks in assessing the impact of implementing the Strategy. The growth targets, which were discussed during the Stakeholders Consultation Workshop, are summarized below (Table 32) and the growth targets for each product category are set.

Table 32: Growth Strategic Target

Product Description	Growth Targets		
	2015-2018	2019-2022	2023-2025
Raw Hides and Skins	No export of raw hides and skins, except rejects for gelatin	No export of raw hides and skins, except rejects for gelatin	No export of raw hides and skins, except rejects for gelatin
Wet blue	100% of hides and skins produced in Zambia are converted into wet blue	100% of hides and skins produced in Zambia are converted into wet blue	100% of hides and skins produced in Zambia are converted into wet blue
Crust leather		50% of the total hides and skins exported as crust	100% of the total hides and skins exported as crust on cumulative basis
Finished leather	25% of total converted into finished leather for domestic production	50% of total converted into finished leather for domestic production	100% of total converted into finished leather for domestic and export markets
Footwear	Increase output by 500,000 pairs per annum	Increase by 25% based on the 2014-17	Increase by 25% based on 2018-21 figures.
Leather goods	Increase output value by 25%	Increase output value by 50%	Increase output value by 75%

4.3. Strategy Objectives and their Rationale

The specific objectives and interventions listed in the Table 33 below elaborate the proposed mechanisms of addressing the issues identified by stakeholders and also drawn from the quantitative analysis. Sub-objectives are listed under each specific objective. The implementation of such interventions would contribute towards the attainment of the main thrust of this Strategy, which is to promote the production and trade of value added products, such as finished leather, footwear and leather goods.

The strategy’s objectives and the rationale of selecting the given objectives are summarized in the Table 33. See the Table 33 below listing the seven objectives and the rationale for their adoption.

Table 33: The Rationale for Selected Objectives

Objectives	Rationale based on Emerging Issues Summarized in Chapter III
Develop 20 Footwear and Leather Goods SMEs Clusters, each with a minimum membership of 20 SMEs.	<p>Zambia, as a developing country, is greatly challenged by a high level of unemployment and high incidence of poverty. Most Micro, Small to Medium enterprises are owned by lower income and lower skilled people, thus an intervention to support the performance of SMEs would address the unemployment issue and also the high incidence of poverty.</p> <p>In addition there is a high potential as there are several people who are involved in footwear repair and production operating informally across the country. This is, thus, a rich base for intervention;</p> <p>Finally the level of investment required to facilitate the transformation of the SMEs and also the creation of extra jobs in this sector is very low. This is a low hanging fruit, which can dramatically change the Zambian Leather Value Chain in the short to medium term.</p>
Improve the production and collection of quality hides and skins	<p>The production of hides and skins have been growing in Zambia in recent years in tandem with economic growth; however, local tanneries have not benefitted from this. There are allegation of massive illegal export of hides and skins. The second issue relating to unofficial export of raw hides and skins can be addressed through an improved enforcement of the hides and skins export ban.</p>

Objectives	Rationale based on Emerging Issues Summarized in Chapter III
To facilitate Resource Mobilization and Policy support for the Growth of the Value Chain	<ul style="list-style-type: none"> • The growth in the production of value added products requires capitalization with regard to tools, equipment and machinery, it is, therefore, imperative that the enterprises are facilitated with suitable financial packages. • Absence of suitable finance is undermining the growth of SMEs involved in the production of finished products; <p>Policy signal/guidance is needed to influence the Private Sector to invest in the production of finished leather products.</p>
Improve collaboration and Policy implementation across the value chain;	<p>A number of cross cutting issues are listed in the SWOT analysis, which have a bearing on the creation of an enabling business environment. Collaboration is essential in enabling optimization in resource use and dealing with emerging challenges systematically and coherently. In addition it responds to the following specific issues:</p> <ul style="list-style-type: none"> • Lack or inadequate horizontal and vertical collaboration among Value Chain Agents is undermining the optimization of the available resources; • Limited collaboration of value chain agents with external stakeholders such as Academia, Quality and Standards Development Organizations, Financial Institutions and Development Partners among others, is undermining growth of the sector; • Despite the fact that Zambia has an export ban on hides and skins, the country still continues to experience an acute shortage. This scenario could be explained by inadequate policy implementation.
Facilitate the production of high quality finished leather in an environmentally sustainable manner	<p>The leather value chain has been known to produce hazardous waste, thus it is fundamental that efficient and environmentally sustainable production techniques are promoted, as this is necessary to boost competitiveness, open new market opportunities and save the environment;</p> <p>Production of quality products which meet the national, regional and international quality standard is a key prerequisite if Zambia is to boost the performance of its leather value chain. In order to enter the formal Public and Private sector market the SMEs must produce footwear which meets the market's technical, regulatory and quality standards;</p> <p>Improvement in value addition would entail improved earnings and employment creation at every segment of the leather value chain. In addition it would boost the economic inter-linkage which the sector would develop with the other sectors of the economy, ultimately leading to multiplier impact across the economy.</p>
Facilitate intra and international trade growth of the value chain	<p>As a country, Zambia will never be self-sufficient in the production of all the diverse kind of leather and accessories, which are needed to produce globally competitive products, thus, it remains imperative that the sector should be connected to regional and international supply chains. In addition, Zambia would need to export some of its finished leather and products to regional and international markets, thus, a deliberate set of activities should be implemented to support both down and upstream linkages with regional and international supply chains.</p>
Facilitate Government Procurement of domestically produced footwear and leather goods	<p>The size of public procurement is quite considerable. It accounts for a significant proportion of the demand for goods and services in the nation and is increasingly considered as an attractive instrument for developing society and nation. There is greater scope of SMEs to manufacture footwear for the Army, Police, Prisons and National Service. Other potential markets are other government Departments, such as Health, National Parks among others.</p>

The objectives listed in Table ** are mainly process objectives, thus they would not pass under the strict, measure of SMART. The measurability of these objectives is brought under sub objectives, which clearly shows expected outputs, that leads outcomes and ultimately growth strategic and market targets.

4.4. Strategic Objectives Prioritization

Prioritization of objectives is important, as the implementation of some interventions would depend on the implementation of others. Thus the implementation of one objective may be a prerequisite for the successful execution of the other. The implementation of the proposed objectives for this strategy are summarized in Table 16. In the last column the rationale for such prioritization is also elaborated.

Table 34: Strategic Objectives Prioritisation

Objectives	Priority				Rationale
	1	2	3	4	
Develop 20 Footwear and Leather Goods SMEs Clusters, each with a minimum membership of 20 SMEs.	x				The market for finished leather in Zambia is generally considered to be small, as the operations of SMEs and their outputs are scattered and small respectively. However, there is a rich potential in this sector the economy. Reorganization of this sector, by facilitating formalization of operations, support on joint procurement, production and marketing, would stimulate the demand of finished leather, and this would naturally stimulate local tanneries to produce more finished leather. SMEs Cluster should focus in the production of basic footwear such as schools, security books and man office formal shoes. These are less sophisticated products and would allow the SMEs to boost their volumes and take a market niche, which can be supported through government procurement. This is a low investment and high impact area of investment, which can be targeted by Government through fiscal allocations.
Improve the production and collection of quality hides and skins		x			Improved production and collection of hides and skins is important; however, this segment of the industry has proved to be the most difficult segment of the leather value chain. This is mainly because slaughter houses have not benefited from the production of quality hides and skins, as their fees are based on the number of animals slaughtered. Production of quality hides and skins have been associated with a pricing formula, which gives hides and skins retention as part of the slaughter fee. This automatically gives the slaughter facility an incentive to ensure the production of quality hides and skins. Government should facilitate the construction of centralized slaughter houses to be managed by local municipalities, who will in turn be made accountable for ensuring the channeling of hides and skins into the national value chain.
To facilitate Resource Mobilization and Policy support for the Growth of the Value Chain	x				This should be a priority intervention as most of the SMEs have not reached a status of attracting commercial bank loans. Thus, the government should facilitate their access to finance through a fiscal allocation.
Improve collaboration and Policy implementation across the value chain.	x				This is an area requiring urgent intervention. Poor collaboration and implementation of policies, have resulted in massive leakages of hides and skins from Zambia. In addition, it has undermined the consumption of Zambian made footwear, which could have stimulated growth in the leather sector.

Objectives	Priority				Rationale
	1	2	3	4	
Facilitate the production of high quality finished leather in an environmentally sustainable manner					Low demand of finished leather in the domestic market undermines the production of finished leather. It is therefore imperative that policy instruments aimed at promoting the production of finished leather at the various stages, such as wet blue and crust, be delayed until the SMEs demand of finished leather is quantified and purchased consistently.
Facilitate intra and international trade growth of the value chain.		x			Intra and international trade is important on both the supply and the demand side. However, engagement in such trade would only bring meaningful results once the SMEs Clusters are organized and thus, can systematically engage in business as importers and exporters of inputs and products respectively.
Facilitate Government Procurement of domestically produced footwear and leather goods			x		Government procurement is very important; however, the SME Clusters capacity to produce products that meet technical and quality standards accepted by government is a prerequisite.

4.4.1. Sub-Objectives, Activities and Measurable Outputs

The formulation of sub-objectives enhances the efficiency and effectiveness in annual planning and execution of the project. In this section specific sub-objectives, activities and expected output indicators under each of the prioritized objectives are presented. The assumption is that the implementation of these activities would generate outputs that would create outcomes and contribute to the attainment of this Strategy's Vision and be manifested through measurable indicators specified under strategic market and growth goals. The specific activities would be crafted as part of the annual work plan by the Ministry of Trade Industry and Co-operatives in consultation with the relevant Stakeholders.

4.4.1.1. Objective 1: Develop 20 Footwear and Leather Goods SMEs Clusters, each with a Minimum Membership of 20 SMEs

The Cluster theory recognizes that the cause of underperformance among enterprises may be attributed to the isolation phenomenon, which is common in most developing countries. Objective 1 puts the concept of demand pull and clustering on the centre stage, and assumes that the growth of SMEs Clusters would transform the performance of the leather value chain. This is mainly because this is a low investment and high impact area, which has the potential of quickly transforming the micro enterprises into medium enterprises, which can manufacture and market high quality basic footwear. The specific sub-objectives and expected outcomes, which would contribute to the attainment of the above objective, are listed in Table 34 below.

Table 35: Objective One and Sub objective

Objective 1: To Develop 20 Footwear and Leather Goods SMEs Cluster, each with a minimum membership of 20 SMEs			
Sub-objectives	Expected Output/Outcome	Stakeholders	Budget Estimate (USD)
Build the capacity of 40 experts in Cluster Management Development	<ul style="list-style-type: none"> 40 expert trained by the mid of year 1 	Ministry of Industry and Commerce, Zambia Leather Association, Technical Institutions, ZDA	
Profiling of SMEs operating in all the Major Urban Centre of Zambia	<ul style="list-style-type: none"> 200 SMEs profiled by end of year one 	Ministry of Industry and Commerce, Zambia Leather Association, Technical Institutions, ZDA	

Objective 1: To Develop 20 Footwear and Leather Goods SMEs Cluster, each with a minimum membership of 20 SMEs			
Sub-objectives	Expected Output/Outcome	Stakeholders	Budget Estimate (USD)
Facilitate the registration of all the qualifying SMEs, as sole traders	<ul style="list-style-type: none"> • 100 SMEs registered by end of the first quarter of the second year 	Ministry of Industry and Commerce, Zambia Leather Association, Technical Institutions, ZDA and PACRA	
Facilitate the training of the SMEs in Clustering Concepts	<ul style="list-style-type: none"> • 100 SMEs trained by the mid of year 2 	Ministry of Industry and Commerce, Zambia Leather Association, Technical Institutions, ZDA	
Facilitate the Clustering of the Registered SMEs and the registration of Cluster holding Company	<ul style="list-style-type: none"> • 10 Cluster registered by end of year 2 	Ministry of Industry and Commerce, Zambia Leather Association, Technical Institutions, ZDA and PACRA	
Develop and facilitate the implementation of procedures for implementing Cluster Activities	<ul style="list-style-type: none"> • Procedures developed and implemented by end of year 3 	Ministry of Industry and Commerce, Zambia Leather Association, Technical Institutions, ZDA	
Facilitate the acquisition of equipment and central factory space for SMEs	<ul style="list-style-type: none"> • Within 2 years all the clusters should be operating from centralized facilities; • Within 3 years all the clusters should be fully equipped 	Ministry of Industry and Commerce, Zambia Leather Association, Technical Institutions, ZDA and PACRA	
Build the capacity of SMEs to produce footwear and leather goods meeting the quality and technical standards of formal retailers and Government	<ul style="list-style-type: none"> • 100 SMEs trained by end of year 2 	Ministry of Industry and Commerce, Zambia Leather Association, Technical Institutions, ZDA and PACRA	
Facilitate joint procurement of inputs for the Clusters	<ul style="list-style-type: none"> • By end of year 3 all Clusters should be jointly procuring their inputs 	Ministry of Industry and Commerce, Zambia Leather Association, Technical Institutions, ZDA	
Facilitate the development of joint production and marketing order books	<ul style="list-style-type: none"> • 20% of SMEs Cluster production jointly made and marketed by end of year 3 • 35% of SMEs Cluster production jointly made and marketed by end of year 5 • 60% of SMEs Cluster production jointly made and marketed by end of year 6 • 70% of SMEs Cluster production jointly made and marketed by end of year 10 	Ministry of Industry and Commerce, Zambia Leather Association, Technical Institutions, ZDA	
Undertake the review of performance of the Cluster Programe Annual	<ul style="list-style-type: none"> • Review report and change recommendations; 	Ministry of Industry and Commerce, Zambia Leather Association, Technical Institutions, ZDA	
Implement the change recommendations annually	<ul style="list-style-type: none"> • Improved performance of the SMEs 	Ministry of Industry and Commerce, Zambia Leather Association, Technical Institutions, ZDA	

4.4.1.2. Objective 2: Improve the Production and Collection of Quality Hides and Skins

Production and collection of quality hides and skins is of paramount importance, to ensure that no value is lost through production of poor quality hides and skins and also due to leakage. The leakage of hides and skins is associated with non collection and also those exported illegally. This is a requiring the enforcement of polices, which are in place or any other revisions that may be made.

Table 36: Objective Two and Subjective

Objective 2: Improve the production and collection of quality hides and skins			
Sub-objectives	Expected Output/Outcome	Stakeholders	Budget Estimate (USD)
Review the implementation of the export ban policy	<ul style="list-style-type: none"> By midyear of year 1 	Ministry of Industry and Commerce, Zambia Leather Association, Technical Institutions, ZDA and Ministry of Agriculture and Livestock Production	
Develop an inventory and quantify the slaughter levels of all slaughter facilities in major urban centres	<ul style="list-style-type: none"> Report ready by mid-year of year 1 	Ministry of Industry and Commerce, Zambia Leather Association, Technical Institutions, ZDA and Ministry of Agriculture and Livestock Production	
Design a system of monitoring the production and marketing of hides and skins	<ul style="list-style-type: none"> System in place by end of year 2 	Ministry of Industry and Commerce, Zambia Leather Association, Technical Institutions, ZDA and Ministry of Agriculture and Livestock Production	
Pass by laws for centralized slaughter	<ul style="list-style-type: none"> By-laws passed by year 2 	Ministry of Industry and Commerce, Zambia Leather Association, Technical Institutions, ZDA and Ministry of Agriculture and Livestock Production	
Facilitate the development of an efficient Hides and Skins production, preservation and marketing system	<ul style="list-style-type: none"> Pre, peri and post slaughter defects incidence reduced by 75%; 75% of hides and skins produced classified as grades (1 and 2) ; 100% of hides and skins produced priced according to grade; 75% of hides and skins produced enters the leather value chain 	Ministry of Industry and Commerce, Zambia Leather Association, Technical Institutions, ZDA and Ministry of Agriculture and Livestock production	
Design a system and institutional arrangement for enforcement the export of hides and skins regime	<ul style="list-style-type: none"> The system in place by end of year 1 	Ministry of Industry and Commerce, Zambia Leather Association, Technical Institutions, ZDA and Ministry of Agriculture and Livestock production	

4.4.1.3. Objective 3: To facilitate Resource Mobilization and Policy Support for the Growth of the Value Chain

Financial resources play a significant role in supporting the capitalization of the sector and also to support full capacity utilization, which is critical in boosting productivity and lowering of unit production costs through economies of scale. The sub-objectives for attaining this objective are summarized in the Table 19 below.

Table 37: Objective 3 and Sub objectives

Objective 3 : To Facilitate Resource Mobilization and Policy Support for the Growth of the Value Chain			
Sub-objectives	Expected Output/Outcome	Stakeholders	Budget Estimate
Conduct sector financial needs assessment for the leather sector, support industries and regulatory institutions in the region	Report completed and disseminated by mid 2015	Ministry of Industry and Commerce, Zambia Leather Association, Technical Institutions, ZDA and Ministry of Agriculture and Livestock Production	20,000.00
Design suitable financial instruments in consultation with national, regional and international (development banks) financial institutions	Instruments designed and implemented by 2015		10,000.00
Mobilise funding from national, regional and international finance corporations and also from Government	Amount raised		20,000.00
Build the capacity of value chain actors including support industries and regulatory authorities on modalities of accessing finance	1,000 enterprises trained by end of 2025		100,000.00
Design a system for monitoring and usage of the mobilized resources, to ensure resource optimization	System developed and implemented by 2015		100,000.00
Establish a business information system to assist enterprises to market access and industry best practices	Improved business technical knowhow and business intelligence		50,000.00
Sub Total			300,000

4.4.1.4. Objective 4: Improve collaboration and Policy implementation across the value chain

The Zambia Leather Value Chain is characterized by poor collaboration among the change actors; consequently there is huge value loss, as there is no sharing of information and knowledge. Horizontal and vertical collaboration is essential in addressing common problems optimally, by sharing the costs associated with it. Collaboration can be used to deal with both supply and demand constraints, which are usually difficult to deal with in isolation. Engagement with stakeholders such as Academia, Development Partners, Financial Institutions, Technical and Service providers in a systematic manner is critical in enabling the sector to reap from economies of scale of collective action. The sub objectives, which would contribute to the attainment, are articulated in the Table 20 below.

Table 38: Objective 4 and Sub objectives

Objective 4: To Facilitate Horizontal and Vertical Collaboration of Chain Players and other Relevant Stakeholders			
Sub-objectives	Expected Output	Stakeholders	Budget Estimate
Activities			
Identify and develop and inventory of agents at every segment of the leather value chain;	<ul style="list-style-type: none"> The inventory is disseminated by end 2015; Inventory continuously update with time 	Ministry of Industry and Commerce, Zambia Leather Association,	
Facilitate the formation of associations at every stage of the value chain;	Associations established and legally registered by mid of 2016	Technical Institutions, ZDA and Ministry of Agriculture and Livestock Production	
Facilitate and coordinate vertical collaboration by forming an Apex Council of the leather value chain;	Apex Council established and officially registered by June 2015		
Identify external stakeholders and formulate mechanism of working with them.	<ul style="list-style-type: none"> Stakeholders inventory designed and methodologies for working with them developed and implemented by 2016 Inventory continuously updated with time 		

4.4.1.5. Objective 5: Facilitate the Production of High Quality Finished Leather in an Environmentally Sustainable Manner

Export of raw hides and skins; cost many African countries, in terms of forgone opportunities, such as employment creation and export of value added products. Zambia has been running an export ban policy on hides and skins; however the shortage of raw hides and skins has remained a major problem despite their rising production. There is a consensus among the Stakeholders that the challenges are associated with the lack of enforcement of the Policy. It is, therefore, important that tangible steps be put in place to ensure the effective implantation of the Policy.

The leather value chain has gained negative publicity across the globe because of the utilization of technologies, which are associated with environmental pollution and damage. This is mainly because of the use of salt and chemicals in the preservation and leather production, respectively. However, it is imperative to note that technological advancement has led to the generation of the development of cleaner technologies and also a significant improvement in waste management. Despite progress in this vein, it should be noted that most production systems in developing countries, including Zambia, have not fully internalized these technologies. The usage of cleaner and environmentally friendly technologies, besides protecting the environment, are also an important marketing tool e.g. eco-labelling etc. This objective, thus focuses in ensuring that all enterprises involved in the leather value chain embrace cleaner and environmentally friendly production technologies.

Table 39: Objective 5 and Sub objectives

Objective 5: Facilitate the production of high quality finished leather in an environmentally sustainable manner			
Sub-objectives	Expected Output	Stakeholders	Budget Estimate
Activities			
Undertake an audit or gap analysis in the technologies being used in Zambia vs. those being used in	<ul style="list-style-type: none"> Audit completed by mid of 2016 	Ministry of Industry and Commerce, Zambia Leather Association,	

Objective 5: Facilitate the production of high quality finished leather in an environmentally sustainable manner			
Sub-objectives	Expected Output	Stakeholders	Budget Estimate
modern production facilities globally;	<ul style="list-style-type: none"> Audit report disseminated by end of 2016 Audit recommendation implemented by end of 2022 	Technical Institutions, ZDA and Ministry of Agriculture and Livestock Production	
Work in collaboration with the value chain players to design a programme for closing the identified gaps;	Program designed and implemented by 2022		
Mobilize resources to facilitate the deployment of cleaner and environmentally friendly production techniques;	Resource mobilization program designed and implemented by 2022		
Design a monitoring system for the implementation of the cleaner production programme	System designed and implemented by 2015		
Develop, review and enforce the relevant laws, regulations, guidelines, standards and codes of practice pertaining to leather and leather products quality	Improved business and policy environment		

4.4.1.6. Objective 6: Facilitate Intra and International Trade Growth of the value chain

Zambia is a Member of COMESA, SADC and WTO and it has signed many bilateral agreements on trade, it is thus important that these trade dispensations are used to facilitate the growth of the leather value chain in Zambia. Regional and international trade can support the leather value chain from both the supply and demand side of the value chain. Action steps should be implemented to create strategic linkages between the value chains, in order to optimize gains that can be derived from it.

Table 40: Objective 6 and Sub objectives

Objective 6: Facilitate intra and international trade growth of the value chain			
Sub-objectives	Expected Output	Stakeholders	Budget Estimate
Activities			
Assess the impact of the Zambian Tariff regime on the performance of the leather value chain	<ul style="list-style-type: none"> Report 	Ministry of Industry and Commerce, Zambia Leather Association, Technical Institutions, ZDA and Ministry of Agriculture and Livestock Production	
Identify critical inputs that are required in the supply side of the value chain, and facilitate their availability	<ul style="list-style-type: none"> Inventory of items Mechanism of making them available 		
Facilitate the participation of SMEs in national, regional and international trade fairs	<ul style="list-style-type: none"> Number of SMEs participating; Volume of business clinched on both the supply and demand side 		
Capacity SMEs to participate in both international trade procurement and marketing	<ul style="list-style-type: none"> Number of SMEs trained 		

Objective 6: Facilitate intra and international trade growth of the value chain			
Sub-objectives	Expected Output	Stakeholders	Budget Estimate
Come up with position papers to assist Government in its trade negotiation processes	<ul style="list-style-type: none"> Number of position papers tabled with Government 		

4.4.1.7. Objective 7: Facilitate Government Procurement of Domestically Produced Footwear and Leather goods

The Zambia Government is one of the major consumers of the leather products, namely footwear, belts and conference folders; however most of these products are mainly imported, resulting in huge foreign currency outflow. This is an opportunity which should be capitalized by SMEs Clusters, which would have a wider impact on the rest of the economy with regard to employment creation, increased VAT also saving of foreign currency. It is, therefore imperative that the SMEs capacity should be developed in order to be able to meet volumes, technical and quality standards, which are acceptable to Government Procurement. The following steps are proposed in order to strengthen the capacity of SMEs to participate in Government procurement.

Table 41: Objective Seven and Sub objectives

Objective 7: Facilitate Government Procurement of domestically produced footwear and leather goods.			
Sub-objectives	Expected Output	Stakeholders	Budget Estimate
Activities			
Assessment of quality and technical standards, minimum order quantities, and tendering procedures required by Government	<ul style="list-style-type: none"> Agreed minimum order quantities set agreed 	Ministry of Industry and Commerce, Zambia Leather Association, Technical Institutions, ZDA and Ministry of Agriculture and Livestock Production	
Build the capacity of SMEs to meet the minimum required standards	500 SMEs trained by end of year 5		
Assist SMEs to participate in Government tendering system			
Review the program annually	<ul style="list-style-type: none"> Review report 		
Implement change strategies			

4.5. Implementation Methodology

The Strategy implementation would be coordinated by the Ministry of Trade, Industry and Cooperatives in collaboration with the Apex Body of the Leather Industry. It is important to note that the Public Private Sector collaboration is important in delivering this Strategy. Thus, an Apex Council of Private Sector, Government and Academia should be established first to drive the implementation of this Strategy. This Committee should come up with a detailed annual work programme drawn from the key activities highlighted in the Strategy. The monitoring and evaluation process, should be supported for continuous data collection and segment association levels and submitted to the Apex Council for reviewing quarterly. Details of would be guided by the strategy unpacking process, which will be facilitated by COMESA/LLPI after the launch of the strategy.

The strategy would be subject to annual implementation performance review; however a detailed impact review should be undertaken after 5 years.