



**ETHIO – INTERNATIONAL FOOTWEAR
CLUSTER COOPERATIVE
SOCIETY(EIFCCOS) STRATEGY
(2015-2019)**

JUNE 2015

**COMESA
Leather and Leather Products Institute
(COMESA/LLPI)**



ACKNOWLEDGEMENT

It would be impossible to address and acknowledge all individuals who in one way or another contributed towards the realization of this **Ethio International Footwear Cluster Cooperative Society (EIFCCOS)** strategy because of their multitude.

The Common Market for Eastern and Southern Africa-Leather and Leather Products Institute (COMESA/LLPI) would like to express its profound appreciation to the **EIFCCOS** Management for its collaboration and assistance for the successful completion of this strategy.

Indeed this process could not have attained this par excellence had it not been for the eagerness of all key stakeholders who shared their knowledge and experience during the One to One Meeting and Participatory Strategy Formulation Consultation workshop.

No less thanks go to Mr. Nicholas Mudungwe, Cluster Development Expert, Dr. Tadesse H. Mamo, Training, Consultancy and Extension Expert and Professor Mekonnen Hailemariam, Value Chain Expert who tirelessly devoted their time in the preparation of this strategy and other colleagues of COMESA/LLPI for administrative and technical support rendered during the assignment period. The leadership of Prof. Mwinyikione Mwinyihija should be appreciated for his guidance and support in the execution of this assignment.

Needless to say, but still, it would remain the responsibility of the COMESA/LLPI for any erroneous, message of this strategy, if any.

STATEMENT FROM THE STATE MINISTER OF INDUSTRY

The Federal Democratic Republic of Ethiopia has registered an impressive and sustained economic growth and stability over the last two decades. The Government promotes export-oriented and labor-intensive industries in line with the country's current comparative advantage. The country has huge potential for leather sector development due to its large livestock population. The leather sector is also known to have multiple linkages to the wider rural economy with enormous potential to create much needed non-agricultural employment, with an important role in poverty reduction. Past and present trends show that the demand for leather and leather products is steadily increasing.

The Government of Ethiopia, based on these facts, accorded the leather sector a priority status in its Export Promotion Strategy drafted in 1998, Industrial Development Strategy (IDS) in 2002 and Growth and Transformation Plan of Ethiopia (GTP, 2010-56). The Government's objective provides the highest possible domestic value addition to finished leather products for the export market for maximization of export earnings.

In Ethiopia, Micro, Small and Medium Enterprises (MSMEs), represent 99% of all enterprises. They have been given a special focus and were identified as key sectors of the economy in the Government's pro-poor economic growth strategy. The MSMEs however still face wide ranging and mutually reinforcing problems affecting their performances in terms of production volume, quality, value addition and market access.

The Government, by offering the fully constructed production site at highly subsidized rental rates to the Ethio International Footwear Cluster Cooperative Society Ltd (EIFCCOS), with more than 1000 members, intended to address the problem of lack of proper business premises.

I strongly believe that the EIFCCOS Leather Value Chain Strategy that will boost productivity, quality and market access. The Strategy was developed through a participatory approach involving key stakeholders. It aims at implementing activities that enhance requisite skills, resource mobilization to upgrade technology in leather footwear manufacturing and leather products development, as well as improving the leather Cluster Management and Governance System and securing Government and external stakeholders commitment and support for enhanced growth.

I wish to express my appreciation and thanks to COMESA-Leather and Leather Products Institute and to all those who worked tirelessly to produce the EIFCCOS Strategy, 2015-2019.

**Hon. Mr. Tadesse Haile
State Minister, Ministry of Industry
Federal Democratic Republic of Ethiopia**

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EXECUTIVE SUMMARY

Ethio International Footwear Cluster Cooperative Society (EIFCCOS), was established in 2006, to support the transformation of footwear artisans who were operating in open markets of Marketo and other markets in and around Addis Ababa. Primarily EIFCCOS was established to address the supply and demand constraints jointly, which were responsible for undermining the growth of these informal entities into fully fledged businesses, with the capacity to contribute to the growth and development agenda of Ethiopia. The following factors were identified as key in unlocking value from these artisans: acquisition of suitable operating premises; improved access to loans and development agency finance; joint procurement and marketing; skills development; business management training; formalization of business transaction; extension service, mentoring and quality control; capitalization; and cooperation with external stakeholders.

The Ethiopian Leather Industry is anchored on a rich livestock base, with 55 million bovine herds, 27 million sheep and 21.7 million goats¹. With off take rates of 10% for bovine and 38% combined for sheep and goats. It is estimated that 24.2 million pieces of hides and skins are produced annually. This is complemented by 28 tanneries operating across the country producing finished leather. Ethiopia is rated as to have one of the best Leather Sector in the COMESA region after Egypt. This lays a solid foundation for the growth of the footwear and leather goods industry, as the primary input is relatively available when compared to the situation in other COMESA countries.

Among various emerging issues which we identified by the Stakeholders as working against the progress of the Cluster major ones are listed below. It is also important to note that these issues were also identified during a meeting which was held by COMESA/LLPI and EIFCCOS management and also during the survey of the SMEs that are operating in the Cluster.

- Inadequate Sector Specific Policies by the Government;
- Limited access to Finance
- Shortage of Machinery and Accessories
- Weak or inadequate Internal Management Framework;
- Lack of raw materials;
- Limited or no Capacity Building Opportunities;
- Marketing or Trade Facilitation Problems;
- Lack of trust/integrity/dishonest among members

The above led to the development of the following strategic objectives, whose implementation would lead to the production of 12,500 pairs of footwear per day under the joint action plan by the end of year two, increased exports, employment and value creation. The strategic objectives are as follows:

- To improve the Cluster Management and Governance System
- To improve the capacity to deliver technical and business services to the internal stakeholders (SMEs)
- To Expand national and regional marketing
- Facilitate the acquisition of equipment and access to finance by SMEs
- To secure Government and External Stakeholders Commitment and support

¹ FAO: World Statistical Compendium for Raw Hides and Skins, Leather and Leather Footwear (1993-2012)

CHAPTER I: CONTEXT SETTING

1.0 Introduction

Ethio International Footwear Cluster Cooperative Society (EIFCCOS) was established in 2006, to support the transformation of footwear artisans who were operating in open markets of Marketo and other markets in and around Addis Ababa. Primarily EIFCCOS was established to address the supply and demand constraints jointly, which were responsible for undermining the growth of these informal entities into fully fledged businesses, with the capacity to contribute to the growth and development agenda of Ethiopia. The following factors were identified as key in unlocking value from these artisans: acquisition of suitable operating premises; improved access to loans and development agency finance; joint procurement and marketing; skills development; business management training; formalization of business transaction; extension service, mentoring and quality control; capitalization; and cooperation with external stakeholders.

In 2006, approximately 1,000 SMEs ranging from suppliers, footwear makers and sellers agreed to form a Cooperative Society, as a mechanism of strengthening and formalizing their business operations. They made monthly contributions of 50 birr which, over the period, cumulated to 1,200 birr per enterprise. In 2008 they were registered as a Cooperative under the Cooperative Proclamation. In addition to this, they received seven buildings from the Federal Government through the Addis Ababa Municipality.

Chapter II deals with the process the Cluster has undergone in realizing its goals and also identification of gaps. This would form the basis for crafting a strategy that would propel EIFCCOS to realize some of its strategic targets in the next five years.

1.1 Structure and the Dynamics of the Ethiopian Economy

The Ethiopian economy continued to grow in 2011/12. Real GDP registered a relatively robust growth of 8.8 percent compared to the 5.5 percent estimate for Sub-Saharan Africa in the same period. The growth was ascribed mainly to higher growth in service sector (10.6 percent), agriculture (4.9 percent) and industry (17.1 percent). However, the real GDP averaged 10 percent during 2010/11-2011/12. The growth of nominal GDP per capita rose to USD 510 from USD 389 in the preceding year, registering a 31.0 percent increase. The resilience of the Ethiopian economy was projected to continue with 11.3 percent growth expected in 2012/13.²

Table 1 illustrates the structure and growth pattern of the Ethiopian Economy from 2004 to 2012. The economy has displayed robust growth for the significant share of the period, as it was double digit in the entire period from 2004 to 2011; consequently the real GDP per Capita has also responded positively. This development is an opportunity for the footwear subsector, as it raises the purchasing power of the general populace, which in turn creates effective demand for footwear and other goods. The economy is dominated by agriculture and the service sectors, with manufacturing's contribution averaging 12.3 % in the period under review. It is thus imperative that Government support should focus on value addition, which would thus also benefit subsectors of leather and ultimately improve the manufacturing sector contribution to the economy.

² http://www.nbe.gov.et/pdf/annualbulletin/Annual%20Report%202011-2012/Annual%20report%202011_12.pdf

Table 1: Sectoral Contributions to GDP and GDP Growth

| Sector | 2004/5 | 2005/6 | 2006/7 | 2007/8 | 2008/9 | 2009/10 | 2010/11 | 2011/12 |
|--------------------|-----------------------------------|--------|--------|--------|--------|---------|---------|---------|
| Growth in Real GDP | 12.7 | 11.5 | 11.8 | 11.2 | 10.0 | 10.6 | 11.3 | 8.8 |
| | Share in GDP (%) | | | | | | | |
| Agriculture | 47.4 | 47.1 | 46.1 | 44.6 | 43.2 | 46.2 | 45.3 | 43.7 |
| Industry | 13.6 | 13.4 | 13.2 | 13.0 | 13.0 | 10.2 | 10.6 | 11.5 |
| Services | 39.7 | 40.4 | 41.7 | 43.5 | 45.1 | 43.8 | 44.1 | 44.9 |
| | Contribution to GDP Growth | | | | | | | |
| Agriculture | 6.4 | 5.2 | 4.4 | 3.3 | 2.8 | 3.5 | 4.1 | 2.1 |
| Industry | 1.3 | 1.4 | 1.3 | 1.3 | 1.2 | 1.1 | 1.7 | 2.0 |
| Services | 5.1 | 5.3 | 6.4 | 7.0 | 6.3 | 5.8 | 5.4 | 4.7 |

Source: National Bank of Ethiopia

1.2 Global and Regional Context of the Leather Value Chain

1.2.1 Global Level

The leather value chain globally is estimated at over USD 100 billion.³ A comparison of this value chain with other commodities reveals that its global trade is greater than the combined trade of meat, sugar, coffee and tea; see Figure 1. 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.

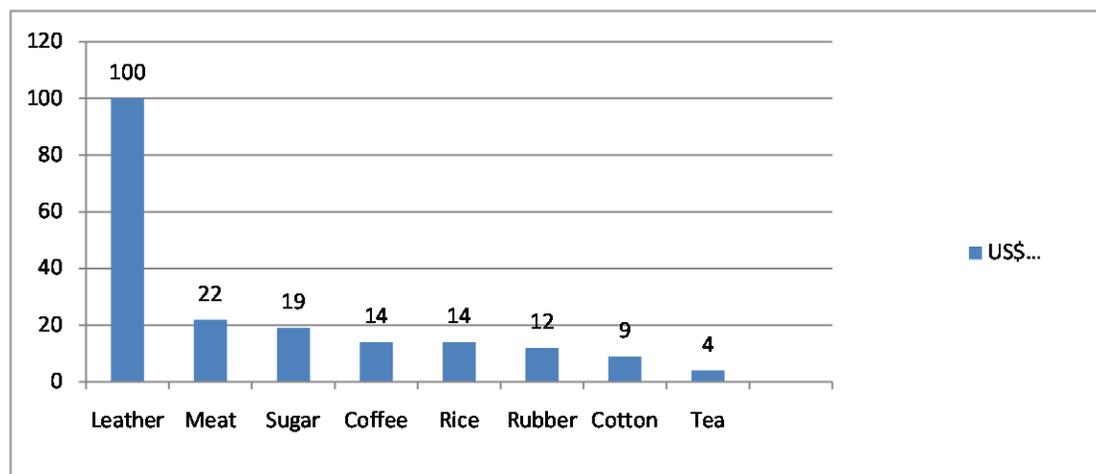


Figure 1: Global Importance of the Leather Value Chain

Source: Computed within COMESA/LLPI reports and FAO 2012

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 2. There is a clear indication that growth in trade rose with the level of value addition, hence Ethiopia must direct its attention towards the production and trade of value added products.

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

Table 2: 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)

1.2.2 COMESA Situation

The COMESA region is made up of 19 African countries, which own approximately 11% of livestock globally; 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. Figure 2 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 2 relates only to bovine animals and bovine light leather and footwear. The illustrated situation is a true reflection of what is obtaining with regards to other types of hides and skins.

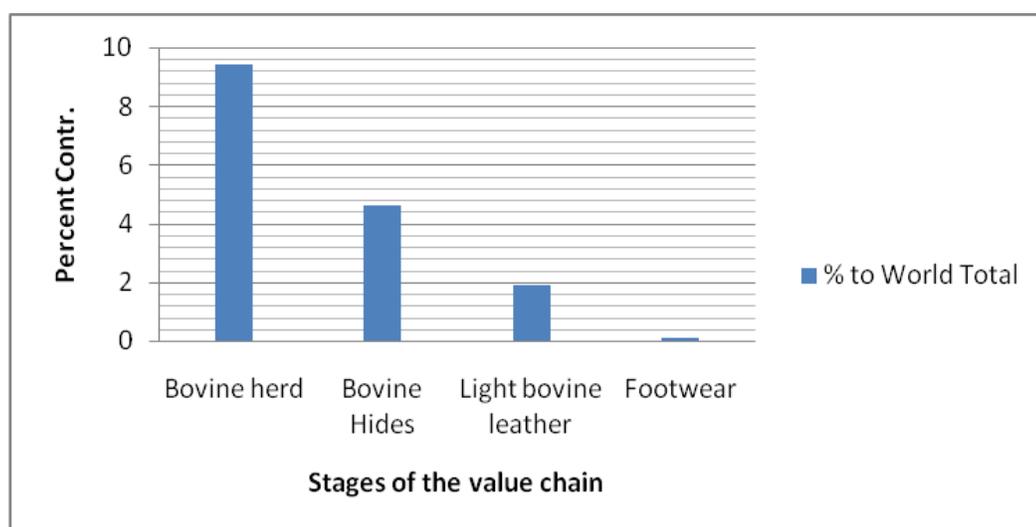


Figure 2: Stages of the Value Chain

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. Other countries in the region can, therefore, draw practical lessons from Ethiopia.

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

⁵ Peri-slaughter defects: any defect that occur by several reasons, like failure to rest animals for certain period of times before killing, 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

1.2.3 Market Size of Footwear in the COMESA Region

The COMESA region's market of footwear is estimated at 365 million pairs of shoes with a per capita of 0.85 pairs per annum. Assuming all these pairs of shoes are produced in the COMESA region, approximately 365,000 direct factory level jobs would be created, which would stimulate increased demand in the use of finished leather, soles, glues and other accessories, consequently creating more indirect jobs. Total output of leather footwear in the COMESA region was estimated⁷ at 80.6 and 92.3 million pairs in 2001 and 2011⁸ respectively. The output figures exclude production from SMEs and other informal enterprises.

In 2012, USD 646 million worth of shoes were imported into the COMESA region from the rest of the world and this translates⁹ to approximately 64 million pairs of shoes. The total market demand is 365 million pairs against a supply of 156 million pairs (imports plus regional production), with an estimated shortfall of 209 million pairs, which is not satisfied per annum. This is, therefore, a market opportunity for SMEs to capitalize without any or limited competition from locally established firms and imports. Figure 3 illustrates the sharp growth in footwear imports from the rest of the world, as opposed to slow or almost stagnant growth in intra trade in the COMESA region.

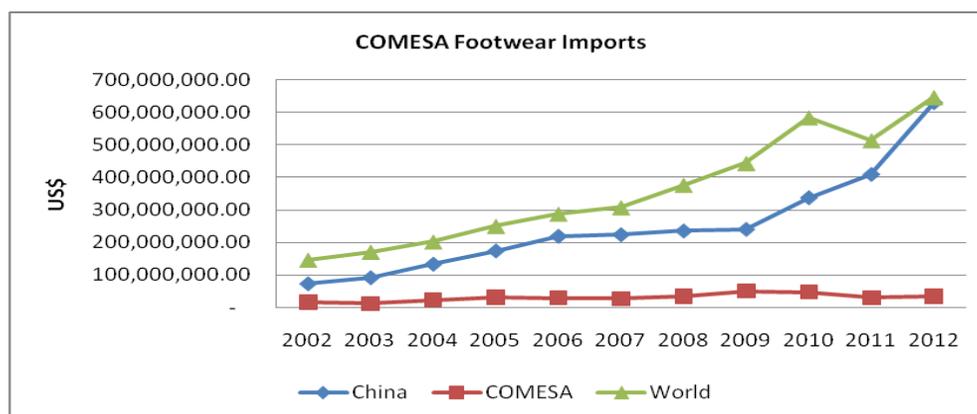


Figure 3: COMESA Imports of Footwear from COMESA Region, China and the World

1.2.4 Leather Subsector in Ethiopia

The Ethiopian Leather Industry is anchored on a rich livestock base, with 55 million bovine herds, 27 million sheep and 21.7 million goats¹⁰. With off take rates of 10% for bovine and 38% combined for sheep and goats it is estimated that 24.2 million pieces of hides and skins are produced annually. This is complemented by 28 tanneries operating across the country producing finished leather. Ethiopia is rated as to have one of the best Leather Sector in the COMESA region after Egypt. This lays a solid foundation for the growth of the footwear and leather goods industry, as the primary input is relatively available when compared to the situation in other COMESA countries.

Large, medium and small enterprises in Ethiopia are producing footwear, leather goods and garments, of which a large proportion is consumed domestically. A small proportion of the footwear is being exported to Europe and other regions of the World. In 2012 Ethiopia exported

⁷ FAO Compendium of Statistics

⁸ FAO Compendium of Statistics

⁹ Assuming the import price of USD10 per pair

¹⁰ FAO: World Statistical Compendium for Raw Hides and Skins, Leather and Leather Footwear (1993-2012)

leather and footwear worth US\$ 85.6 million and US\$14.4 million respectively, the former contributed 3.84% and the later 0.77% to the total export bill¹¹. The exports of products of Chapter 41 (hides, semi processed and finished leather) and Chapter 64⁰, have been on an upward trend since 2002, however Chapter 41 recorded a deep in 2008, before accelerating to reach a peak of above US\$120 million. The period 2011 to 2013 is characterized by a decline in the export of articles of Chapter 41, which is associated with a pronounced rise in the export of finished leather. This reveals that finished leather being produced in Ethiopia after the introduction of export tax on crust is now being absorbed into the local footwear and leather goods manufacturing industry. Given the scenario for Ethiopia to generate sustained growth in the leather sector, thus reach its growth targets, deliberate efforts should be made to support the export of footwear and leather goods. Figure 4, illustrates the export dynamics of articles of Chapter 41 and 64 respectively.

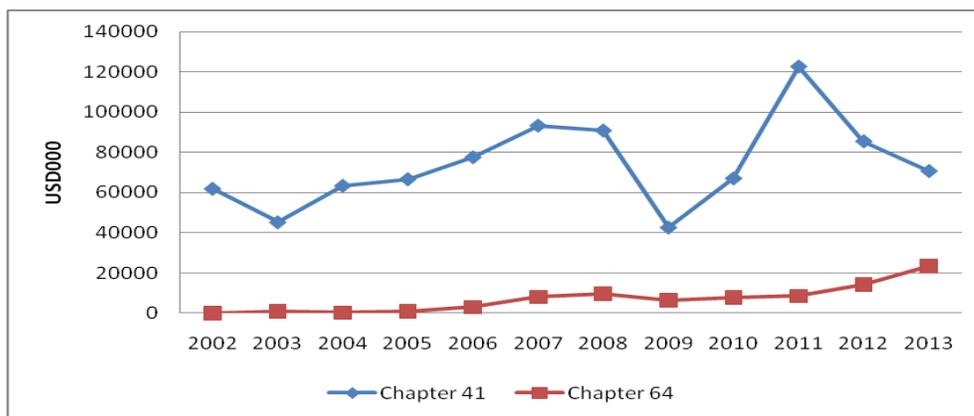


Figure 4: Export of Articles of Chapter 41 and 64

Source: COMESA/LLPI computation from ITC Trade Map Data

The footwear market in Ethiopia has been growing rapidly in tandem with the growths of the overall economy in the period 2002 to 2012. This growth is reflected by a rapid growth in the import bill of footwear from below US\$ 20 million to over US\$50 million in ten years. This is despite the fact that Ethiopia is one of the leading footwear makers in the COMESA region. The large population size is also another important factor, which explains this rapid expansion in imports despite relatively large domestic production. See import dynamics in Figure 5.

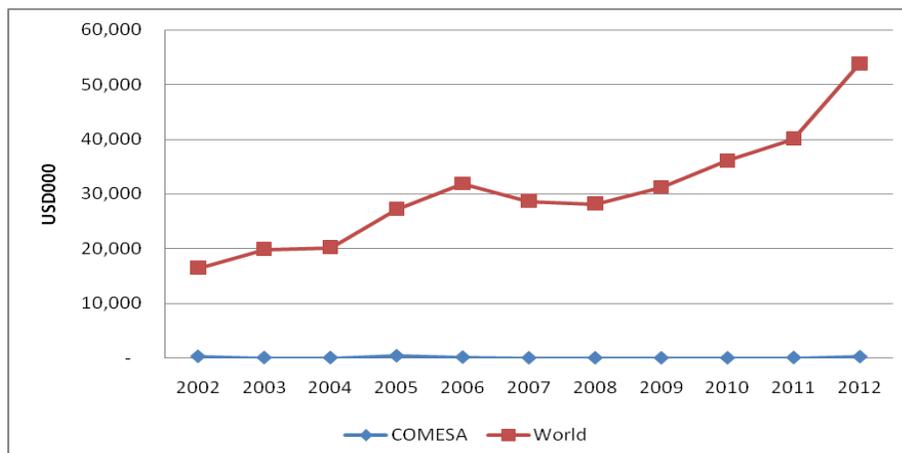


Figure 5: Ethiopia Imports of Footwear to COMESA and the Rest of the World

Source: COMESA/LLPI computation from ITC Trade Map Data

¹¹ ITC Trade Map

1.3 Clustering Ecosystem: Theory and Practical Perspectives

Clusters are geographic concentrations of interconnected companies, specialized, service providers, and associated institutions in a particular field that are present in a nation or region. The World Bank (2009) has argued that:

A cluster is a system of interconnection between private and public sector entities. It usually comprises a group of companies, suppliers, service providers, and associated institutions in a particular field, linked by externalities and complementarities. An example would be a country's auto industry, with its manufacturers and all their supporting services, such as parts and equipment suppliers, transportation companies, retail distributors, educational institutions and RandD firms, public relations and advertising agencies, etc.

Industrial clustering is seen as a key tool in facilitating the development and improving the overall sustainability and competitiveness of key industrial sectors. The cluster theory recognizes that the cause of underperformance among firms may not be attributable solely to firm size, but rather to the isolation phenomenon that these small firms often experience. Cluster development initiatives, therefore seeks to harness the competitive benefits from collaborative or joint action among SME's operating in the same business or sector. It essentially works towards the development of the cluster eco-system. The Figure 6 illustrates an ideal Cluster Ecosystem.

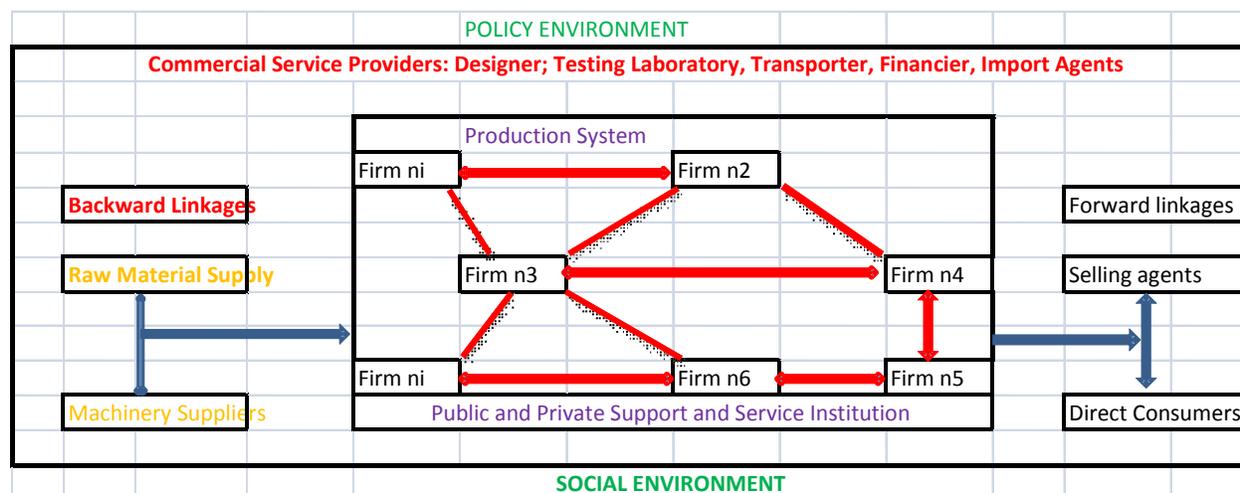


Figure 6: Cluster Ecosystem

Studies of economic development in both developing and advanced countries have shown that firms located in clusters are more likely to be innovative, pay higher wages, and achieve greater productivity than firms that are geographically isolated, with few local linkages. When firms and related organizations are situated in physical proximity to each other, they have more (and more varied) interaction than geographically dispersed firms. This leads to increased efficiency and quality through:

- **Peer pressure** - Local rivalry can spur companies to better performance. When similar companies are located near each other, differences become more noticeable.
- **Relationships** - Personal relationships facilitate the flow of information. In clusters, there tend to be strong informal networks where specialized knowledge is dispersed quickly through business transactions, social activities and other casual interactions.

- **Reinforcing growth** - Once a critical mass of cluster activity develops, the attractiveness of locating in the cluster increases rapidly, which accelerates the cluster's growth.
- Clustered enterprises can achieve levels of **competitiveness** that reach beyond the potential of individual enterprises because firms within clusters benefit from collective efficiency gains, i.e. "the competitive advantage derived from local external economies and joint action.

The centrality of Clustering is anchored in **joint action**: this is whereby a group of enterprises come together to implement (i) solutions to common problems or (ii) reap the benefits of a common opportunity. The amalgamation of effort and resources is done to minimize and distribute the uncertainty risk among a group rather than an individual unit.

1.4 Conclusion

This Chapter has laid a framework for analyzing the factors influencing the performance of EIFCCOS. In Chapter Three a detailed situational analysis on the current status of EIFCCOS is presented in both qualitative and quantitative terms.

CHAPTER II: SITUATIONAL ANALYSIS

2.0 Introduction

This Chapter presents a situational analysis of EIFCCOS and addresses the following issues; architecture of EIFCCOS, performance of the SMEs operating under the Cluster, achievements and issues of EIFCCOS as was generated during the consultation process, SWOT and Gap analysis. This Chapter thus forms the substructure of formulating a robust strategy that is geared at elevating the performance of EIFCCOS to the global level. EIFCCOS holds the potential of becoming one of the leading Clusters in the COMESA region, and its success would be used as a regional template for designing and implementing Clusters across the COMESA region and even across the African Continent.

2.1 Ecosystem of EIFCCOS Cluster

The Cluster theory recognizes that the cause of underperformance among firms may not be attributable solely to firm size, but rather to the isolation phenomenon that these small firms often experience. In recognition to this, the promoters/founders of EIFCCOS came up with a structural design that was aimed at strengthening joint action internally and also external collaboration as a mechanism of dealing with the challenges the SMEs were facing as they were scattered in open markets across Addis Ababa. The roles and functions of the internal Agents are summarized in Table 3:

Table 3: Internal Stakeholders and their Roles

| Internal Units | Functions |
|---------------------------------------|--|
| House of Assembly or Representatives: | <p>The House of Assembly has the following authorities and functions:</p> <ul style="list-style-type: none"> • To deliberate on and pass decisions on all the activities of the society • To represent the General Assembly and passes decisions on its behalf • To assign members in control and other committees except for the chairperson position of the society • To make decisions on request for membership or cancellation of membership from the society • To decide on acceptance or cancellation of membership and presents its decision to the General Assembly for approval • To ensure that the General Assembly decisions are implemented • To review and decide on the purchase of machineries and properties outside open bid whenever necessary and when the Management Committee presents a request, |
| Management | <ul style="list-style-type: none"> • With the approval of the House of Assembly, appoint, and dismiss EIFCCOS General Manager, decide on the salary scale and other benefits of the General Manager. • Get the bye-laws and internal rules of the society be prepared and present them to the House of Assembly for approval • Make recommendations to the House of Assembly for approval on the appointment/dismissal of EIFCCOS department heads and above • Formulate the EIFCCOS organizational structure and submit it for approval to the House of Assembly for implementation. • Decide on the purchase or sale of all movable of fixed assets in the name of EIFCCOS • Discuss on EIFCCOS budget and submit same for approval to the General Assembly. • Decide on bond sale and transfer issues. • Ensure the establishment and functioning of strong internal control system. • Oversee the activities of different sub-committees and call meetings of the General Assembly in accordance with the bye-laws of the society. • Present its recommendation to the House of Assembly on new membership requests and membership cancelations • Review the Society's activity report, financial report and internal audit report and give comments. • Hold the Books of Accounts of the society in an appropriate manner and decide on opening or closing of the EIFCCOS account. • Review and approve the different reports and issues submitted by the General Manager of EIFCCOS or present them to the House of Assembly for approval as appropriate. • Review salary scale of EIFCCOS employees and get them approved by the House of Assembly. |
| Marketing | <p>The Marketing Unit has some 36 itemized functions with few of them indicated here below</p> <ul style="list-style-type: none"> • Conduct detailed market study • Make forecasting on future wanted shoe designs in the market • Owns the produced designs • Keep soft and hard copies of designs and pass them on to different units like last producers, sample producers, price setters, or raw material suppliers • Pass on shoe samples to EIFCCOS producers through EIFCCOS Management |

| Internal Units | Functions |
|--------------------------|--|
| | <ul style="list-style-type: none"> • Take shoe samples to market, participate in Exhibitions, and take orders on shoe parts • For unsold shoe models prepare a clearance sale action plan • Being part and parcel of EIFCCOS, it should scrupulously observe the Association's rules and regulations as well as periodically make decisions and instructions • Etc.. |
| Estates | <ul style="list-style-type: none"> • Involved in construction and building of the EIFCCOS members needed production area, offices, manufacturing shops, stores and product display areas and pass on to EIFCCOS units and members in lease or rent form |
| Input suppliers | <ul style="list-style-type: none"> • Participate in EIFCCOS purchase activities • In cooperation with EIFCCOS oversee that the inputs purchased from outside or within country were brought to EIFCCOS store |
| Producers manufacturers | <ul style="list-style-type: none"> • In good work environment and, based on EIFCCOS quality standard, get production materials • As per assigned work activity getting work order and market • To be competitive and user of continuously advancing technologies, getting and using modern machineries • Giving priority to EIFCCOS activities • Producing, based on set quality standards only • Not using for one's own purpose of passing to the third party confidential work information obtained from the center • Etc... |
| Designers | <ul style="list-style-type: none"> • Designers are accountable to EIFCCOS and closely work with the Marketing Unit • Establishing linkage with foreign designers and upgrading ones capacity • Giving priority to EIFCCOS activity • During sample shoe production making, close follow-up, giving corrective comments, and reporting to EIFCCOS on work progress • Producing the models in hard and soft copies • Price wise competitiveness of the designs • Selling the design with its copy to the marking or ordering unit • Etc... |
| Workshop and Maintenance | <ul style="list-style-type: none"> • Hold the necessary spare parts and provide maintenance services to machineries and vehicles owned by the EIFCCOS different units. |

Figure 7 presents the architectural design of the EIFCCOS Cluster. The various agents and stakeholders illustrated in the Figure are further elaborated in the Section below.

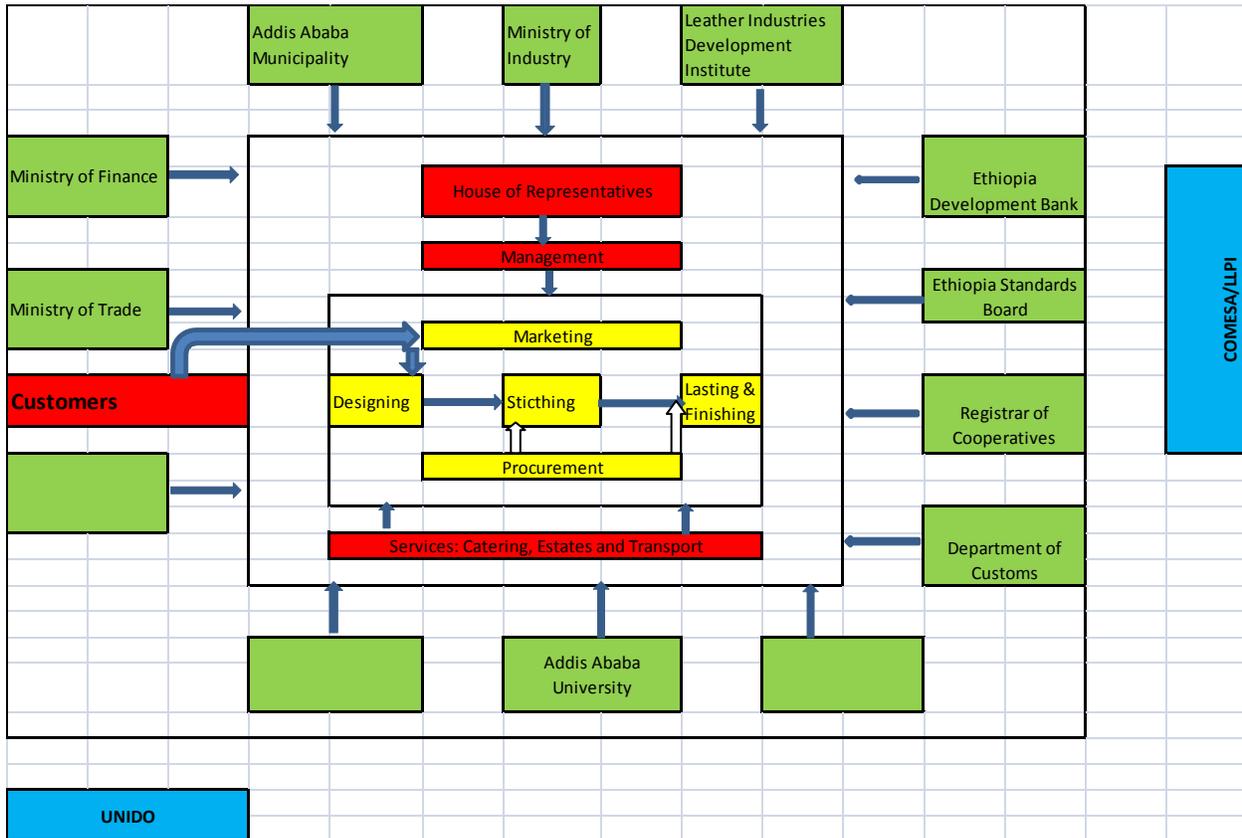


Figure 7: The Architecture of EIFCCOS Cluster

Beyond the internal agents EIFCCOS has or is supposed to have relationships with a number of Stakeholders, which are shaded in green in Figure 6. The nature of inputs expected from each of those Stakeholders and the nature of relationship they currently have with EIFCCOS is discussed in the next section

2.3 Stakeholders Analysis

2.3.1 Assessment of EIFCCOS Relationship with External Stakeholders

A stakeholder is anybody who can affect or is affected by an organization, strategy or project. They can be internal or external and they can be at senior or junior levels. Some definitions suggest that stakeholders are those who have the power to influence an organization or project in some way. Table 4 illustrates EIFCCOS' current stakeholders and the strengths of the relation which exists and the action which should be undertaken by the EIFCCOS Management to improve the level of collaboration.

Table 4: EIFCCOS's Stakeholders, Current and Expected Contributions

| Stakeholders | Current or Expected Functions | Strengths of Relationship | | | | Recommendation |
|--|--|---------------------------|------|----------|-----------|---|
| | | No Relationship | Weak | Moderate | Excellent | |
| Ministry of Finance | <ul style="list-style-type: none"> Policy support with regard to taxation and influence in opening of regional markets; Resource mobilization | x | | | | Need to initiate and create a relationship |
| Ministry of Trade | <ul style="list-style-type: none"> Policy support with regard to taxation and influence in opening of regional markets; Market intelligence about regional and international markets | | | | | Need to initiate and create a relationship |
| Addis Ababa University | <ul style="list-style-type: none"> Technical and business development support; Research and development | x | | | | Need to initiate and create a relationship |
| Addis Ababa Municipality | <ul style="list-style-type: none"> Provision of premises and utilities | | | | | Strengthen this relationship if possible enter into a written MOU or contract. |
| Ministry of Industry | <ul style="list-style-type: none"> Policy support with regard to taxation and influence in opening of regional markets; | x | | | | Request for a focal point in the Ministry, who will work to facilitate the activities of the Cluster |
| Leather Industries Development Institute | <ul style="list-style-type: none"> Capacity building; Extension support; Product testing and certification | | | | | Enter into an MOU with respect to the services EIFCCOs expects from LIDI, e.g. capacity building, materials and products testing. |
| Ethiopian Development Bank | <ul style="list-style-type: none"> Provision of suitable Finance | | | | | |
| Ethiopian Standards Agency | <ul style="list-style-type: none"> Standards development | x | | | | Need to initiate and create a relationship |
| Department of Customs | <ul style="list-style-type: none"> Facilitation of imports and exports | x | | | | |
| UNIDO | <ul style="list-style-type: none"> Resource mobilization; and Technical support; Capacity building | | | X | | Need to continue to work together to improve the performance of the Cluster, through joint actions |
| COMESA/LLPI | <ul style="list-style-type: none"> Resource mobilization; Technical support; Capacity building; and Regional market opportunities. | | | X | | Need to continue to work together to improve the performance of the Cluster, through joint actions |
| JICA | <ul style="list-style-type: none"> Provision of development finance; Technical assistance | 15 | 8 | 0 | 0 | Initiate and strengthen the relationship |
| Ethiopia Kiezen Institute | <ul style="list-style-type: none"> Technical assistance Technology transfer | 23 | 0 | 1 | 0 | Need to initiate and create a relationship |

| Stakeholders | Current or Expected Functions | Strengths of Relationship | | | | Recommendation |
|--|--|---------------------------|----------|----------|-----------|--|
| | | No Relationship | Weak | Moderate | Excellent | |
| Ministry of Information | <ul style="list-style-type: none"> Publicity and awareness raising | 18 | 5 | 0 | 0 | Need to initiate and create a relationship |
| Ministry of Foreign Affairs | <ul style="list-style-type: none"> Linkages with diplomatic offices resident in Addis Ababa | 8 | 19 | 0 | 0 | Work to strengthen the relationship |
| Federal Cooperative Agency | <ul style="list-style-type: none"> Facilitates SMEs development at Federal level | 18 | 6 | 6 | 0 | Work to strengthen the relationship |
| Addis Ababa Science and Technology of University | <ul style="list-style-type: none"> Reverse engineering Research and development | 26 | 0 | 0 | 0 | Need to initiate and create a relationship |
| Electric Power Authority | <ul style="list-style-type: none"> Power supply | 2 | 22 | 1 | 0 | Work to strengthen the relationship |
| SMEs Development Office (AA) | <ul style="list-style-type: none"> Service Rendering Policy issues | 19 | 9 | 2 | 0 | Work to strengthen the relationship |
| Chamber of Commerce | <ul style="list-style-type: none"> Business advocacy Business services support | 27 | 3 | 0 | 0 | Need to initiate and create a relationship |
| ELIA | <ul style="list-style-type: none"> Business advocacy Business services support | 15 | 11 | 6 | 1 | Work to consolidate the relationship |
| Registrar of Cooperatives | <ul style="list-style-type: none"> Registration of cooperatives | 10 | 4 | 6 | 0 | Work to consolidate the relationship |
| Ministry of Science and Technology | <ul style="list-style-type: none"> Support in R and D Support in technology transfer | 25 | 0 | 0 | 0 | Need to initiate and create a relationship |
| National Bank of Ethiopia | <ul style="list-style-type: none"> Development Finance | 18 | 3 | 5 | 0 | Work to strengthen the existing relationship |
| Ethiopia Competitiveness Facility | <ul style="list-style-type: none"> Technical support Finance | 7 | 0 | 11 | 1 | Work to consolidate and strengthen the existing relationship |
| USAID | <ul style="list-style-type: none"> Technical support Finance | 15 | 8 | 0 | 0 | Need to initiate and create a relationship |
| Africa Development Banks | <ul style="list-style-type: none"> Technical support | 19 | 0 | 0 | 0 | Need to initiate and create a relationship |
| Ministry of Urban Development | <ul style="list-style-type: none"> Provision of working space | 16 | 2 | 6 | 0 | Consolidate and strengthen the existing relationship |
| GIZ | <ul style="list-style-type: none"> Technical support Finance | 15 | 11 | 0 | 0 | Work to improve the relationship |
| Ethiopia Management Institute | <ul style="list-style-type: none"> Capacity building | 25 | 0 | 0 | | Need to initiate and create a relationship |
| Average | | 15 | 7 | 4 | 1 | |

The assessment shown in Table 4 above is summarized in Table 5. In Table 5 the Stakeholders are classified in category based on their highest score with respect to the following relational attributes (No relationship; Weak relationship; Moderate relationship and Excellency relationship)

Table 5: Summary of Stakeholders Analysis

| Nature of Relationship | Average | Organizations with a Score above average in each category | Comments |
|-------------------------------|----------------|--|--|
| No | 15 | Ministry of Finance; Addis Ababa University; Ministry of Industry; Ethiopia Standards Agency; Ethiopia Development Bank; World Bank; Ethiopia Kiezen Institute; ministry of Information; Federal Cooperative Agency; Addis Ababa Science and Technology University; SME Development Office; Chamber of Commerce; Ministry of Science and Technology; National Bank of Ethiopia; Africa Development Bank; Ministry of Urban Development; Ethiopia Management Institute; Department of Customs; JICA; ELIA; Ethiopia Development Bank; USAD; GIZ | EIFCCOS' relationship with these organizations is very weak or does not exist at all |
| Weak | 7 | Ministry of Trade; Addis Ababa Municipality; Ministry of Foreign Affairs; Addis Ababa Science and Technology of University; electric Power Authority | The relationship exist, however is rated to be weak |
| Moderate | 4 | Ethiopia Competitiveness Facility; LIDI; UNIDO | The relationship is established however it needs to be strengthened |
| Excellency | 1 | Ministry of Industry; COMESA/LLPI | Sound relationship, however should be maintained and consolidated |

2.3.2 Trends in Joint Business Orders and Revenue Sharing Formula

EIFCCOS' production operation falls into two categories, namely Joint and Independent Orders. The Joint Order Approach responds to big orders obtained through the EIFCCOS Management Marketing Department. Once an order is received the work is distributed to the various segments of the Cluster, and the parties involved in the production of a given order are enumerated as illustrated in Table 6. On the other hand the Independent orders refer to orders received and produced by single Footwear Artisans operating in the Cluster. In the execution of a Joint Order, the EIFCCOS Management is directly involved in the provision of inputs and also quality control; however in the independent orders scenario, individual SMEs deliver the assignment with no direct assistance of EIFCCOS Management. Over the past six years, on balance, the Independent orders have dominated; consequently the interaction between EIFCCOS Management and SMEs; provision of materials and quality control support has been limited. In order to improve the performance of the overall Cluster with regard to quality and efficiency it is critical that extension support should be afforded to the SMEs, even when they are dealing with independent orders. As quality improvement is more effective if it is continuously reinforced, rather in a discrete pattern, when dealing with joint orders only. The dominance of independent orders and thus limited interaction between EIFCCOS Management and SMEs is one of the biggest risks to the clustering process.

The relationship between income distribution and the level of contribution by each economic agent within a Cluster is very important, as it reinforces significantly on sustaining the efficiency and effectiveness of the system. Skewed distribution of income, which fails to offer a fair return of investment or contribution by any agent along the value chain, may undermine the effectiveness and efficiency in the performance of the value chain. This is mainly because economic agents who feel cheated may offer a compromised service, which they deem to be commensurate to the income they are receiving. This would therefore lower the quality, efficiency and effectiveness of the final outcome, thereby consequently undermine the growth and performance of the cluster. It is therefore imperative that EIFCCOS Management in consultation with its internal Stakeholders should formulate a Revenue Sharing Formula that is fair. In case of joint orders EIFCCOS has a formula for sharing the returns, which is illustrated in Table 6.

Table 6: Standard Formula for Sharing Joint Order Income

| Economic Agent | Percentage |
|-----------------------|------------|
| Marketing | |
| Designers | |
| Uppers Manufacturers | |
| Lasting and Finishing | |

The functions of the agents shown in Table 2 are summarized as follows:

- **Marketing** – these are responsible for securing and delivering the order; thus their main task is to search for opportunities within Ethiopia and abroad;
- **Designers** – Product development, duplication of Customers orders; and they can also develop new collections. Once the order is received the designing department is responsible for coming up with the specifications and material requirement of the footwear type, which has been ordered. They come up with the proto-type; once

approved it is passed to Procurement Department, to allow them to purchase the required materials;

- **Upper Manufacturers** – These are responsible for manufacturing the shoe upper; once complete they pass it over to Lasting and Finishing Department;
- **Lasting and Finishing** – These are responsible for lasting and assembling the shoe.

Table 7: EIFCCOS Revenues from Joint Orders for the Period 2013/14

| No | Client | Product type | Quantity (Pair) | Value in birr | Remark |
|----|---------------|-----------------|-----------------|---------------|-----------------|
| 1 | Gourum | Men's shoe | 17,800 | 2,000,000.00 | 14,000 supplied |
| 2 | Briki and Loa | Security Shoe | 766 | 105,000.00 | All supplied |
| 3 | ECEX | Work shoe | 1,200 | 237,000 | All supplied |
| 4 | Red-Cross | Orthopedic shoe | 2,741 | 567,000.00 | All supplied |
| 5 | Kenya | Men's shoe | 77,865 | 12,880,000.00 | All supplied |
| | Total | | 100,372 | 15,789,000 | |

Assuming that 1,200 SMEs are operating under the Cluster, it implies an average footwear production per SME unit of 83 pairs and average revenue of 13,157 birr in six months. This is a clear reflection that joint orders are still very low, and thus deliberate action must be undertaken to boost this. The export market contributed 81% of the total joint orders, it is thus imperative that resources should be channeled in towards the expansion of this promising market. Big orders are important as they contribute to the clustering agenda by ensuring that the majority of SMEs are involved in joint orders, and hence assist in building trust and a sense of belonging.

2.3.2 Measures to Improve the Savings Culture Among SMEs

As part of measures to improve the savings culture among SMEs the Cluster Cooperative made each member to open a bank account; and payment to the SME from the cluster cooperative is made through the bank account and all Withdrawals are also done by combined signature of the account holder and EFICCOS management. The Cluster cooperative also made members to buy shares in the cluster cooperative investment, which could also be considered as saving for the SME.

2.4 Analysis of the Cluster

SWOT analysis, Porter Five Forces Model and Gap analysis was employed in order to develop a deep appreciation of the issues, opportunities and threats that EFICCOS is facing. The use of the three tools aided the process of refining the issues, which were identified during the Stakeholder Workshop and the SME Survey. The analysis is presented below:

2.4.1 SWOT Analysis

The SWOT analysis illustrated in Table 8 identifies areas that this strategy should address, in order to stimulate the performance of EIFCCOS to be a regional and global player. It is fundamental that the intervention should deal with all aspects of SWOT analysis; that is, the intervention should work to strengthen Strengths, turn weaknesses into Strengths, capitalize on Opportunities and turn Threats into opportunities.

Table 8: SWOT Analysis

| STRENGTHS | WEAKNESSES |
|--|---|
| <ul style="list-style-type: none"> • Good premises, serviced with utilities e.g. water and electricity; • Legal status of a cooperative status, makes them enjoy tax exemptions; • Well positioned to receive development partners' donor finance; • Geographical proximity, makes it possible to undertake joint action in procurement and marketing; • Well organized to receive capacity building and other support services | <ul style="list-style-type: none"> • Lack or inadequate tools and machinery; • Limited technical and business management skills; • Limited funding at the moment; • Distance from Merkato has raised the cost of transport and labour; • Under-pricing products in order to fight competition from SMEs still operating in Merkato; • Limited technical and management support from the Coop management; • Limited joint action on procurement and marketing |
| OPPORTUNITIES | THREATS |
| <ul style="list-style-type: none"> • The market for footwear is growing domestically and regionally • Potential for branding footwear from the cluster; • New market opportunities in the region; • There are a number of development partners who are willing to support SMEs • Potential for joint action to deal with common problems | <ul style="list-style-type: none"> • SMEs fatigue setting in, because a number of promises have failed to materialize after 6 years of the cluster operation; • Formalization of SMEs, raised the cost of doing business in comparison to the situation before, however the SMEs are still dealing with the same market given the limited volume of joint orders; • Influx of second hand imports and cheaper shoes from China; • Over-dependence on independent work, rather than joint orders is contributing to disharmony in the cluster; • Limited improvement in business performance after the formation of the cluster; • Limited availability of working capital |

2.4.2 Porter – Five - Forces Model

The Porter Five-Forces Model assists in ascertaining EIFCCOS Cluster's strategic efficiency; determine the long and short run implications of competing in certain types of footwear and market segments. It also assists in establishing a clear understanding of the attractiveness of the footwear cluster and the market segments; an indication of the impediments to competitiveness that should be dealt with by the EIFCCOS Management in collaboration with its membership. Furthermore, this model provides a mechanism of evaluating the potential profitability. The findings of the Five-Forces Model assessment of EIFCCOS Cluster are presented in Figure 9.

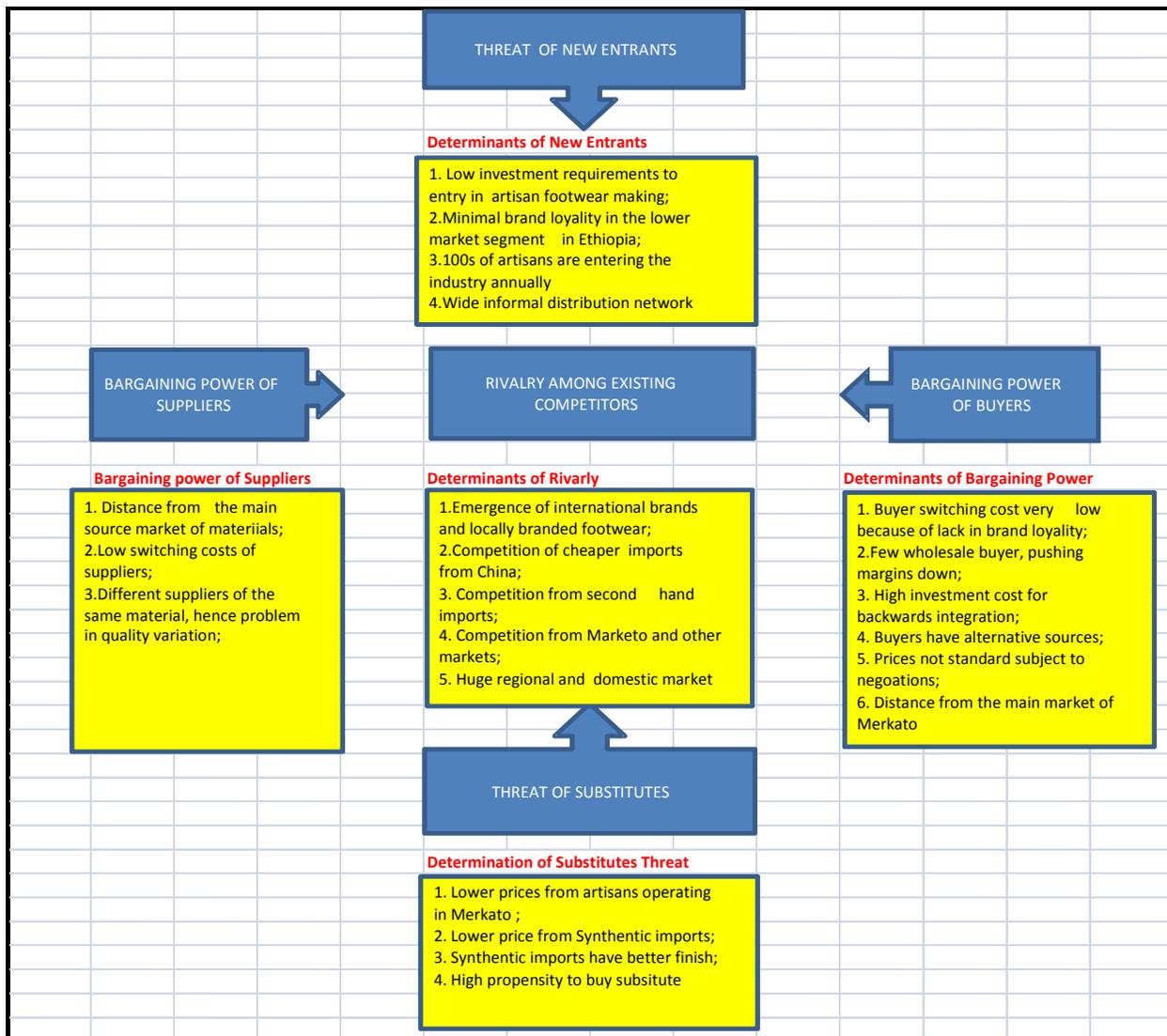


Figure 8: Porter Five-Forces Model of SMEs operating Under EIFCCOS

The creation of EIFCCOS was aimed at elevating the performance of SMEs to above their previous situation with regard to the quality of inputs they use, their output and also the market segment they serve. However the SME survey results shows that approximately 90% of the business operations have not improved. For their independent orders these SMEs are still purchasing and selling inputs and their outputs respectively in Merkato. Their cost of business has gone up especially with regard to transport for materials and products to and from Merkato, consequently they are forced to push down their prices and this is eating into their profits. See details in Table 9, which illustrates that the SMEs in EIFCCOS are selling their footwear at below cost price, because the cost of doing business has gone, whilst they are still competing in the same market with artisans in Merkato. In addition to this wholesalers who buy from them have a strong bargaining power as they are procuring from many SMEs

Table 9: Cost-Benefit Details of Footwear as Indicated by the SME Owners

| Material | Men shoe cost/pair (Birr) | Military shoe cost/pair (Birr) | Ladies shoe cost/pair (Birr) | Boys shoe cost/pair (Birr) | Sandals shoe cost/pair (Birr) |
|-----------------------|---------------------------|--------------------------------|------------------------------|----------------------------|-------------------------------|
| Leather | 57.31 | 74.20 | 44.94 | 44.09 | 19 |
| Sole | 21.8 | 42 | 28.66 | 24.5 | 53 |
| Insole | 12.5 | 15 | 6.4 | 12.5 | |
| Shanks | 4.8 | 25 | 2.12 | 2.66 | |
| Glue | 10.89 | 6.5 | 7.9 | 3.5 | 3 |
| Others | 14.62 | 10 | 11.75 | 12 | 4.15 |
| Labour | 30 | 25 | 31.25 | 21.25 | 18 |
| Total Production Cost | 151.92 | 197.7 | 133.02 | 120.5 | 97.15 |
| Wholesale price | 202.00 | 245.00 | 140.00 | 105.00 | 115.00 |
| Gross Margin | +50.08 | +47.3 | +6.98 | -15.5 | +17.5 |

Source: COMESA/LLPI Survey of EIFCCOS SMES

2.4.3 Gap Analysis

Gap analysis is synonymous with benchmarking; it is an attempt to take the focus outside the Cluster business size category and even outside the country. It leads to the identification of generic insights into the Cluster's key drivers of success. The Gap analysis was taken to analyze EIFCCOS Cluster vs Matured Clusters in Italy, China and across the Globe. The use of this tool is important in the sense that it assists in building awareness among the EIFCCOS Cluster Members about the fundamental factors for building competitiveness and success of the Cluster. Limited knowledge about factors that is driving success of other similar clusters within or outside the country, in promoting innovativeness. The Gap analysis findings are presented in Table 10.

Table 10: GAP Analysis of the EIFCCOS Cluster

| Critical Success Factors | EIFCCOS Cluster | Matured Clusters | GAP |
|---|-----------------|------------------|-----|
| Joint Bulk Procurement of Inputs | 2 | 5 | -3 |
| Joint Production | 2 | 5 | -3 |
| Joint Marketing | 2 | 5 | -3 |
| Management, Market and Finance Training | 1 | 5 | -4 |
| Training on production skills | 1 | 5 | -4 |
| Productivity improvement schemes | 0 | 5 | -5 |
| Financial Support | 1 | 5 | -4 |
| Total Quality Management Support | 1 | 5 | -4 |
| Extension Support | 1 | 5 | -4 |
| Local Government Support | 3 | 5 | -2 |
| Provision of Business Development Services | | | |
| • Credit Guarantee | 1 | 5 | -4 |
| • Export Insurance | 0 | 5 | -5 |
| • Organization of Fairs | 1 | 5 | 4-5 |
| • Access to information on the evolution of Market and Technology | 0 | 5 | -5 |
| • Client Rating | 0 | 5 | -5 |
| Waste Management | 0 | 5 | -5 |
| Pollution Control | 0 | 5 | -5 |
| Quality Certification and Award Trade Marks | 0 | 5 | -5 |

| Critical Success Factors | EIFCCOS Cluster | Matured Clusters | GAP |
|---|-----------------|------------------|-------------|
| Product Promotion | 1 | 5 | -4 |
| Product Testing | 0 | 5 | -5 |
| Secure Government Commitment | | | |
| • Public procurement | 0 | 5 | -5 |
| • Provision of premises | 5 | 5 | 0 |
| • Access to Government soft loans | 2 | 5 | -3 |
| • VAT Exemptions | 5 | 5 | 0 |
| • Exemption of Import taxes on inputs and equipment | 2 | 5 | -3 |
| • Inclusion of Cluster Approach and specific Clusters in Governmental policies and strategic plans | 2 | 5 | -3 |
| Governance and Transparency | | | |
| Building Cluster Inclusiveness | 2 | 5 | -3 |
| Service Level Agreements | 1 | 5 | -4 |
| Participatory | 2 | 5 | -3 |
| Commitment | 4 | 5 | -1 |
| Monitoring and Evaluation of the performance of the Cluster | 2 | 5 | -3 |
| Regular updates | 2 | 5 | -3 |
| Strong Triple Helix Relationship | 1 | 5 | -4 |
| Relationship with Key Stakeholders | | | |
| Ministry of Finance | 1 | 5 | -4 |
| Ministry of Trade | 1 | 5 | -4 |
| Ministry of Industry | 2.5 | 5 | -2.5 |
| Addis Ababa Municipality | 3 | 5 | -2 |
| Leather Industries Development Institute | 2.5 | 5 | -2.5 |
| Ethiopia Development Bank | 2.5 | 5 | -2.5 |
| Ethiopia Standards Board | 0 | 5 | -5 |
| Registrar of Cooperatives | 2.5 | 5 | -2.5 |
| Department of Customs | 1 | 5 | -4 |
| Academia | 0 | 5 | -5 |
| UNIDO | 2.5 | 5 | -2.5 |
| COMESA/LLPI | 2.5 | 5 | -2.5 |
| Total | 68 | 225 | -157 |
| Rating: 0. Non-existent; 1. Extremely poor performance on this dimension; 2. Poor performance on this dimension; 3. Average performance on this dimension; 4. Good performance; 5. Excellent performance | | | |

The Gap Analysis findings, which is based on the Stakeholder Participatory Workshop and SME Survey (See Annex 1), reflects that the EIFCCOS Cluster is lagging behind the globally matured Clusters. However it is imperative to note that it is in the right direction, as it is believed that a problem known is half solved. As per the assessment EIFCCOS has a deficit of 157 points, which translates to 30.2% rating. The implementation of the strategy is geared to close the identified gaps, and thrust EIFCCOS to higher level of performance. The strategic Chapter outlines the strategic interventions that would assist in improving the rating of EIFCCOS with regard to Gap Analysis.

2.5 Participatory Workshop

2.5.1 Workshop Methodology

The Stakeholder Participatory Approach was used in the execution of the Workshop, which allowed every participant to contribute to the discussion, identification of success issues and

also the formulation of intervention. In order to maximize on the inputs of every participant, the local language Amharic was used and the discussion was undertaken using a blended approach whereby participants used cards to make written contributions, which were then reviewed and collated in open plenary. The open plenary discussion gave the opportunity to all participants to review the importance of all the issues, which were identified. This process was further strengthened by group discussions in the formulation of intervention strategy. The use of cards was well received by participants, as it gave them confidence to make contributions without fear or bias. See picture below illustrating the participatory approach, which was used in the identification, collation and prioritization of issues.



Figure 9: Participants endorsing a point



Figure 10: Collation Process of the Identified Issues



Figure 11: Group Discussion



Figure 12: The State Minister of Industry exchanging views during the workshop

2.5.2 Workshop Participants

The Workshop participants were drawn from all the levels of internal Stakeholders in the Cluster and also from relevant external Stakeholders. The dominant group was the SMEs, who

commanded 67.1% of the participants. This was deliberate as they are the engine for production and are the majority in the cluster. This was followed by EIFCCOS Management which took 17.1% of the total participants, this was mainly to ensure that all levels of Management have an opportunity to listen and understand the issues that were impacting negatively on the performance of the Cluster. External Stakeholders took the 15.7% of the participation slots. The involvement of external stakeholders in the strategy formulation of Clusters is of paramount importance, as they are usually important in supporting Clusters development with regard to policy, business facilitation, capacity building and resource mobilization. Their participation created a platform for them to create a deep appreciation of the EIFCCOS and the factors that is influencing its dynamics. Table 10 summaries the distribution of participants.

Table 11: Distribution of Workshop Participants

| Stakeholders | No. of Participants | % Contribution | Specific organizations for External Participants |
|-----------------------|---------------------|----------------|---|
| EIFCCOS Management | 12 | 17.1 | Management |
| EIFCCOS SMEs | 47 | 67.1 | SMEs |
| External Participants | 11 | 15.7 | LIDI UNIDO COMESA/LLPI Ministry of Industry Representatives from Federal and Addis Ababa SMEs Agency, Cooperation's registrar, Addis Ababa Sub-City Representatives |
| Total | 70 | 99.9 | |

2.5.3 Success Achieved by EIFCCOS According to Stakeholders

In most strategy formulations, the focus is on challenges; however it is imperative that economic agents should also take stock of their success. This is of Psychological importance, as it assists in building hope and confidence among the stakeholders. In addition, stakeholders may draw lessons and also find mechanism of strengthening them. This is based on the philosophy of specializing in one's area of strengths, which argues that returns are usually higher if one focuses in the area of strength rather than focusing in the unknown territory. Table 11 summaries, notable achievements of EIFCCOS over the past six years. It is, therefore, recommended that EIFCCOS should work to consolidate and leverage on these successes.

Table 12: Benefits Achieved by Cluster Member as Cited SMEs

| No. | Success Achieved | Score | Significance (%) |
|-----|--|-------|------------------|
| 1 | Better work place | 30 | 34.48 |
| 2 | Working together | 28 | 32.18 |
| 3 | Having common management service | 6 | 6.90 |
| 4 | Good results | 2 | 2.30 |
| 5 | Support and recognition from public sector | 5 | 5.75 |
| 6 | EIFCCOS is like a book/library | 1 | 1.15 |
| 7 | Technology transfer | 3 | 3.45 |
| 8 | Learned patience | 6 | 6.90 |
| 9 | Built with Youth | 1 | 1.15 |
| 10 | Built with experienced people | 4 | 4.60 |
| 11 | Having strong vision | 1 | 1.15 |
| | | 87 | 100 |

2.5.4 Top Nine Issues Identified by Stakeholders and Summary of Group Presentations

During the two-day workshop, the stakeholders made a total of 313 submissions about issues/challenges, which they felt were undermining the performance of EIFCCOS. These submissions were collated into thirty-two groups of issues, of which the dominant ones, which attracted 273 (87.22%) of the votes are listed in Table 11. There was overwhelming consensus among the Stakeholders that the nine issues were the main/important factors that need to be addressed in order to promote the growth and development of EIFCCOS. Nine groups were formulated and were given approximately four hours to deliberate on specific interventions, which were critical in addressing these issues. The results of the Group Work is Presented in Table 11 in their raw form.

Table 13: The EIFCCOS Cluster Challenges and Proposed Intervention as Identified during the Strategy Formulation Workshop

| No. | Issues/Challenges | Score | Proposed Interventions | Stakeholders |
|--|---|-------|---|--|
| 1 | Inadequate Sector Specific Policies by the Government | 32 | Training of stakeholders on cluster structuring and operation; Facilitate experience sharing among countries on cluster operations; Prepare standardized rules and regulations on clusters. Based on this, organize extensive workshops for members. | UNIDO, COMESA, Mol. Federal and Addis Ababa SMEs Enterprise/Agency |
| | | | Create a clear system of job appropriation and accountability in Cluster operation by stakeholders. | UNIDO, Addis Ababa SMEs Agency/Enterprise |
| | | | Establish a standard and sustainable work linkage between EIFCCOS and stakeholders. | |
| | | | Concerned stakeholders should provide sustainable assistance according to their given jobs and responsibilities. | |
| | | | Identify cluster challenges, prioritize them, and implement them effectively. | – All stakeholders |
| Follow-up illegal trade and enforce legality | Ministry of Trade and Industry and Revenue Authority | | | |
| 2 | Limited access to Finance | 31 | Financial resource to purchase machinery and raw materials/inputs and potential sources are: <ul style="list-style-type: none"> • From cooperating partners/stakeholders • Bank credit on 10/90 basis • Bank credit on 30/70 basis | |
| 3 | Shortage of Machinery and Accessories | 33 | <p><u>Machines Required on Short Term</u></p> <ul style="list-style-type: none"> • Cutting crunch • Various reinforcement materials preparation machines • Back heel stretcher/pulling machine • Sole adhesive/pressing machine and overn/heater • Zig-zag decorative stitching machine • Numbering and model stamping machine <p><u>Medium and Long Term Plan</u></p> <ul style="list-style-type: none"> • Stitching machine • Stretching/pulling machine • Others <p><u>Recommended Solutions</u></p> <ul style="list-style-type: none"> • Lease provider • Capable stakeholder • Gift or Assistance | UNIDO, COMESA/LLPI, Italian Government, USAID and other NGOs |

| No. | Issues/Challenges | Score | Proposed Interventions | Stakeholders |
|-----|--|-------|--|--|
| 4 | Weak or inadequate Internal Management Framework | 38 | <ul style="list-style-type: none"> • Introduce weekly, monthly, bi-annual and annually detailed plans; • Conduct weekly, monthly, bi-annual and annual monitoring and evaluation • Create a producer led responsible professionally and administratively competent leadership • Conduct Board approved extra-ordinary and general meetings • Conduct timely internal and external audits • Participation in the planning process | <ul style="list-style-type: none"> • internal |
| 5 | Lack of raw materials | 21 | <p>Shoe forms/Last: Shoe forms which are in use in the country are not to the standard and the unavailability of such basic material shows negative impact on the footwear industry</p> <p>Leather: Sufficient quality leather as a basic product is not available in the market. Footwear manufacturers are obliged to buy inferior quality when one wants to buy quality ones from leather manufacturers (tanners); Export of finished leather should be banned</p> <p>Soles/Heels: PU, PVC, TR and TPR are raw materials for the production soles; Soles made up of Scrap PVC is not considered as quality ones.</p> <p>Adhesives: Adhesives are one of the important components for footwear production. However most of them are not to the standard and research/assessment should be carried out. Moreover, proper practical training on adhesive usage is of paramount important</p> <p>Reinforcement materials: Basic reinforcement materials should be encouraged to produce them locally for quality inspection purpose.</p> <p>Others (accessories): Such as shoe lace, shoe sewing threads, shank, rivet, eyelet, etc should be standardized and revisited for their quality</p> | |
| 6 | Limited or no Capacity Building Opportunities | 30 | <p>Financial Management Training: Cash flow preparation and implementation; Financial Statement preparation Training</p> | <p>Addis Credit and Savings Institute; Cooperatives Agency; Micro and Small Enterprises Development Bureau</p> |

| No. | Issues/Challenges | Score | Proposed Interventions | Stakeholders |
|-----|---|-----------|---|---|
| | | | <p>Training (short term) in:</p> <ul style="list-style-type: none"> • Cooperatives formation, Rules and Regulations • Cluster co-operatives development general concept • Duties and responsibilities of the Consortium members • Delineation (division) of responsibilities between co-operatives and individuals • Principles, aims and advantages of Cluster Co-operatives Society | <ul style="list-style-type: none"> • Co-operatives Agency • UNIDO • COMESA/LLPI • EIFCCOS |
| 7 | Marketing or Trade Facilitation Problems | 38 | <ul style="list-style-type: none"> • Conduct marketing research /study • Based on model production unit efficiency, fair distribution of business opportunities to be in place. • To bring quality products, deploy experienced footwear technologist (s) for overall supervision. • Establishment of an independent Quality Control Unit (from outside, e.g. LIDI) • Invest/work on promotion activities at large | |
| 8 | Inadequate Knowledge of the Cluster Concept | 20 | <ul style="list-style-type: none"> • Provide effective and continuous awareness creation programme to public and private, main and subordinate actors. • Create an environment and facilitate awareness means to manufacturers to advance their knowledge in clustering concept. • Facilitate experience sharing missions to advanced countries | |
| 9 | Lack of trust/integrity/dishonest among members | 30 | <ul style="list-style-type: none"> • Management body is responsible to facilitate and disseminate transparent and ample information to manufacturers/members and manufacturers have also the right to ask for any relevant information • Select efficient management members • Seek public institutions to assign efficient Representatives responsible to monitor and evaluate the activities of the Cluster Co-operative • Provide awareness creation training to all stakeholders on fixed terms • Avoid unfair delineation of business opportunities | |
| | Total | 40 | | |

2.5.5 Conclusion and Emerging Issues

The emerging issues which we identified by the Stakeholders as working against the progress of the Cluster are listed below. It is also important to note that these issues were also identified during a meeting which was held by COMESA/LLPI and EIFCCOS management and also during the survey of the SMEs that are operating in the Cluster.

- Inadequate Sector Specific Policies by the Government;
- Limited access to Finance
- Shortage of Machinery and Accessories
- Weak or inadequate Internal Management Framework;
- Lack of raw materials;
- Limited or no Capacity Building Opportunities;
- Marketing or Trade Facilitation Problems;
- Lack of trust/integrity/dishonest among members

The intervention strategies are informed with the above issues and the findings of the SWOT, Porter's Five Forces Model and Gap analysis. The implementation of some of the interventions would require limited financial investments; however, their implementation would assist in building trust and cohesion in the Cluster. Chapter III presents strategic interventions that are proposed to contribute to the development and improved performance of the Cluster.

CHAPTER III: STRATEGY

3.0 Introduction

This Chapter presents the Strategy's response issues, which were identified in the previous Chapters. The overall objective of the Strategy is to transform the performance of EIFCCOS Cluster to allow it to meet growth and market targets and consequently deliver value to its Stakeholders.

3.1 Vision

To make EIFCCOS the national leader in the production of modern and high quality shoes and one of the world class shoe producers globally, in the future.

3.2 Mission

To integrate the traditional shoe producers and transform their production systems to the very modern ones, by using very up-to-date technology, and to produce high quality shoes, by the world standards, mainly for the international market so as to ultimately raise the living standards of these producers to the highest level possible.

3.3 Market and Growth Targets

The annual production plans for EIFCCOS should target specific markets and growth thresholds, in order to improve the performance of the Cluster beyond the informal business phase. The Cluster may risk collapse if the SMEs in the Cluster continue to operate in isolation, and targeting the same market they were dealing with in the past. Table 13, defines the new market focus and growth targets that the EIFCCOS Management should vigorously pursue.

Table 14: Market and Growth Target

| Description of Targets | After Two Years | After Five Years |
|--------------------------------------|--------------------------------------|--------------------------------------|
| Joint Orders | Produce 12,500 pairs per day | Increase by 25% of 12,500 pairs |
| Expand national distribution network | 100 shops in Ethiopia | |
| Penetration in the regional market | 30% of turnover into regional market | 60% of turnover into regional market |

3.4 Strategic Objectives

Based on the issues and analysis undertaken in Chapter II, the following are the key objectives that should be attained by EIFCCOS in order to transform its performance into a formidable Cluster, which would enable it to meet its internal and external Stakeholders expectations. In Table 14 the proposed objectives are listed and also the rationale for their selection is elaborated.

Table 15: Rationale for the Objectives

| No. | Objectives | Rationale |
|-----|--|--|
| 1 | To improve the Cluster Management and Governance System | A number of issues which, were raised during the Stakeholders Workshop relate to the inadequacy in the overall management of the Cluster. In addition to this, the Gap Analysis revealed that the management system scored 40%, which shows a gap of 60% when compared to a Model Cluster Management Excellence Systems. Improved management is essential in building trust, collaboration and efficiency in the delivery of joint orders, which are the cornerstone in the Cluster Development Process. |
| 2 | To improve the capacity to deliver technical and business services to the internal stakeholders (SMEs) | The SMEs are the engine for the growth of the cluster with regard to the production and delivery of the expected volumes and quality of footwear to the Cluster's clients. The SMEs survey showed gaps with regard to the services which the SMEs were expecting to receive vis-a-vis what they were currently receiving. In the GAP analysis, the Cluster delivery scored 17%. Objectives 1 and 2 are related to the improvement in 1, would greatly contribute to the attainment of objective 2. There is a need to build the capacity of SMEs through technical and business management training and extension support. According to the SMES survey that was undertaken by COMESA/LLPI as part of the strategy formulation process, it was found that the majority of SMEs have not received training in both technical and business management skills post to becoming members of the Cluster. Thus their approach to production, business development and management was still the same as before. |
| 3 | To Expand national and regional marketing | The SMEs survey revealed that joint production was very low; Based on the joint order of the first 6 months of 2014, each SME was estimated to have produced only 83 pairs, which translated to 13,157 birrs. Given the low joint order business which is the foundation of clustering SMEs are forced to operate independently as they used to do in Merkato. This puts them at a marketing disadvantage as they continue to compete in the same market segment with the Merkato Artisans, who have lower business overhead costs. According to the findings of the SMEs Survey, a significant number of SMEs are selling their products at prices below the ex-factory prices, in order to compete with non-formal artisans. |
| 4 | To facilitate the acquisition of equipment and access to finance by SMEs | EIFCCOS have failed to deliver on this, as the majority of SMEs are still using the equipment, they were using prior to the establishment of the Cluster 6 years ago. |
| 5 | To secure Government and External Stakeholders Commitment and support | During the Stakeholder consultation, meetings with EIFCCOS Management and the survey of SMEs, there was a clear demonstration that the Government has supported the Cluster. This is also reflected in the Gaps analysis, which shows a score rate of 53%. The 53% mark reflects that there are other issues that the Government still needs to commit for the Cluster to perform to its fullest potential. A Cluster's performance and strength is a function of both internal and external stakeholders. External Stakeholders are important in technical, business, policy and financial support to the Cluster. |

3.5 Sub-Objectives, Activities and Measurable Outputs

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 generate positive outcomes; ultimately contributing to the attainment of this Strategy's Vision as 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 EIFCCOS Management in consultation with internal stakeholders and few selected Stakeholders, who may play a facilitator's role.

3.5.1 Sub-Objective 1: To improve the Cluster Management and Governance System

The capacity of Clusters to deliver high economic performance is usually defined as Cluster Excellence. Cluster excellence can, for example, be expressed in terms of Cluster growth, added value, productivity and innovativeness. Cluster management excellence is often linked to the strength and professionalism of the Cluster Organization. A Cluster Organization typically functions as a mediator between various Cluster members and adds value by stimulating collaboration both within the Cluster and between the Cluster and the outside world. Cluster Management Excellence, thus, refers to the organised efforts allowing achieving and maintaining Cluster Excellence. The implementation of the activities listed in Table 15 would improve the collaboration of Members at EIFCCOs, which consequently contribute to improved performance.

Table 16: Objective One: To Improve the Cluster Management and Governance System

| Objective 1: To improve the Cluster Management and Governance System | | | |
|---|---|--|------------------------|
| Sub-objectives and Activities | Expected Outputs/Outcomes | Stakeholders | Budget Estimate |
| Develop an annual action plan | <ul style="list-style-type: none"> Plans developed with members' participation annually; Plan implemented systematically Improved performance and transparency; | Members of the Cluster | Br. 20,000.00 |
| Develop communication platform | <ul style="list-style-type: none"> Communication routines are well developed, and different methods are used to communicate with different stakeholders Communication with cluster stakeholders is based on a clearly defined communication plan and follows agreed timeline | Members of the Cluster | Br. 80,000.00 |
| Establish agreements with Cluster participants (SMEs) | <ul style="list-style-type: none"> Service level agreements signed with all internal stakeholders; Each Stakeholder meets his obligations Improved accountability | Members of the Cluster | done |
| Set up systems for data collection | <ul style="list-style-type: none"> Data collected and monthly progress reports produced and circulated Improved evaluation of progress and enhanced transparency | Members of the Cluster | Br. 60,000.00 |
| EIFCCOS Management trained in Cluster Management | <ul style="list-style-type: none"> All the management team trained by end of 2015 | UNIDO, COMESA/LLPI, Ethiopian Management Institute (EMI), Ethiopia Kizen Institute (EKI) | US\$ 50,000.00 |
| Exposure visits organized to developed Clusters | <ul style="list-style-type: none"> At least one exposure visit undertaken annually | UNIDO, Management of EIFCCOS | US\$ 100,000.00 |
| Improve the Real Estate Management and Maintenance | <ul style="list-style-type: none"> Buildings and facilities maintenance plans developed and implemented; Minimum standards set in terms of set of individual production Units; Peer review system set on ensuring the abidance of the above. Quarterly review of implementation progress. | Management of EIFCCOS, members of the cluster | Br. 100,000.00 |

3.5.2 Sub-Objective 2: Improve the capacity to deliver technical and business services to the internal stakeholders (SMEs)

The objectives of setting up the EIFCCOS Cluster were to achieve enhanced performance in terms of quality, volumes, value addition, profitability and formalization of business. The given positive development can only be attained by implementing specific activities, which would transform technically, mentality and business acumen of SMEs. The activities listed in Table 16 would significantly contribute to quality of products and overall business management of SMEs operations.

Table 17: Objective Two: Improve the Capacity to Deliver Technical and Business Services to the Internal Stakeholders (SMEs)

| Objective 2: Improve the capacity to deliver technical and business services to the internal stakeholders (SMEs) | | | |
|---|--|---|-------------------------------|
| Sub-objectives and Activities | Expected Outputs/Outcomes | Stakeholders | Budget Estimate (US\$) |
| To train SMEs owners in technical production skills, supervision and quality management | <ul style="list-style-type: none"> 100% trained by end of 2015 | LIDI, COMESA/LLPI, UNIDO, EMI, EKI | 40,000.00 |
| To train SMEs owners in business, financial and marketing management | <ul style="list-style-type: none"> 100% trained by end of 2015 | LIDI, COMESA/LLPI, UNIDO, EMI, EKI | 20,000.00 |
| To train SMEs workers in production skills | <ul style="list-style-type: none"> 100% trained by end of 2015; Ongoing as new recruits are employed | LIDI, COMESA/LLPI, UNIDO | 200,000.00 |
| To offer ongoing business coaching support to SMEs | <ul style="list-style-type: none"> Ongoing and monthly progress reports produced | EIFFCOS Management and LIDI | 25,000.00 |
| To offer ongoing total quality management support to SMEs | <ul style="list-style-type: none"> Ongoing and monthly progress reports produced | EIFFCOS Management and LIDI | 100,000.00 |
| Develop a quality certification system for the SMEs products | <ul style="list-style-type: none"> Quality certification system in place by end of 2015 | LIDI, Ethiopia Standards Agency, EIFCCOS Management | 60,000.00 |
| Offer products testing support to SMEs | <ul style="list-style-type: none"> Samples sent for testing monthly | LIDI, Ethiopia Standards Agency, EIFCCOS Management | 50,000.00 |
| Train SMEs in pollution and waste management processes | <ul style="list-style-type: none"> 100% of the SMEs owners trained by end of 2017 | UNIDO and Ethiopian Environmental Agency, LIDI | 25,000.00 |
| Improve joint procurement, production and marketing. | <ul style="list-style-type: none"> 20% of operations attributed to joint business by end of 2015; 40% of operations attributed to joint business by end of 2016 60% of operations attributed to joint business by end of 2017 | EIFFCOS Management | 250,000.00 |

3.5.3 Sub-Objective 3: To expand national and regional marketing

The SMEs operating in the Cluster are still competing in the lower end of the market that is dominated by informal SMEs operating in open markets. It is imperative that once the products of these SMEs have been upgraded by implementing activities in Objective two, they should focus in the middle and high income market nationally and regionally. The activities listed in Table 17 would assist in the identification of suitable and lucrative markets for the Cluster.

Table 18: Objective Three: To Expand National and Regional Marketing

| Objective 3: To Expand national and regional marketing | | | |
|--|--|--------------------------|-------------------------------|
| Sub-objective and Activities | Expected Output/Outcome | Stakeholders | Budget Estimate (US\$) |
| Undertake a national and regional marketing research | <ul style="list-style-type: none"> Potential markets identified | COMESA/LLPI, UNIDO, LIDI | 30,000.00 |
| Implement the findings of the market research | <ul style="list-style-type: none"> Participated in Fairs in potential markets; Potential buyers identified and business deals clinched | COMESA/LLPI, UNIDO | 100,000.00 |
| Promote the Cluster activities | <ul style="list-style-type: none"> Activities of the Cluster published in the media; Website update | LIDI, COMESA/LLPI, UNIDO | 100,000.00 |
| Support the participation of SMEs in national, regional and international fairs | <ul style="list-style-type: none"> Participated in National, Regional and international Fairs | COMESA/LLPI, LIDI, UNIDO | 250,000.00 |
| <ul style="list-style-type: none"> Invest resources in growing the joint procurement, production and marketing; Target institutional and government business | <ul style="list-style-type: none"> Joint procurement, production and marketing plans drawn and implemented; 12,500 pairs produced per day, under the joint order scheme; 100% of material used for both joint and independent orders are jointly procured to ensure quality consistency | | 100,000.00 |
| Build the brand of the cluster by ensuring that all products produced in the Cluster meet minimum quality and performance standards. | <ul style="list-style-type: none"> Improved image of the cluster nationally and regionally; Price differentiation against the informal clusters | EIFCCOS Management | 90,000.00 |

3.5. 4 Sub-Objective 4: To facilitate the acquisition of equipment and access to finance by SMEs

Inadequate machines were identified as one of the main constraints undermining the performance of the SMEs in the Cluster. It is, therefore, fundamental that these issues be addressed as a matter of urgency. Given the limited resources availability it is recommended that this can be implemented in phases. The activities listed in Table 18 would contribute to addressing the inadequate of equipment challenge.

Table 19: Objective Four: To Facilitate the Acquisition of Equipment and Access to Finance by SMEs

| Objective 4: To facilitate the acquisition of equipment and access to finance by SMEs | | | |
|--|---|--|------------------------|
| Sub-objectives and Activities | Expected Outputs/Outcomes | Stakeholders | Budget Estimate |
| Produce and inventory of the machines required | <ul style="list-style-type: none"> Inventory produced | EIFCCOS management | Br. 3000 |
| Prioritize the equipment to be purchased in consultation with all stakeholders | <ul style="list-style-type: none"> Priority list produced and shared with SMEs | EIFCCOS management | US\$ 10,000.00 |
| Develop funding proposals | <ul style="list-style-type: none"> Proposal developed and submitted to potential funders | COMESA/LLPI, LIDI, UNIDO, SMEs Development Agency Registrar of | US\$ 10,000.00 |

| Objective 4: To facilitate the acquisition of equipment and access to finance by SMEs | | | |
|---|---|--------------------|-----------------|
| Sub-objectives and Activities | Expected Outputs/Outcomes | Stakeholders | Budget Estimate |
| | | Cooperation | |
| Develop a savings scheme for the purchase of equipment | <ul style="list-style-type: none"> The scheme designed and implemented | EIFCCOS management | US\$ 5,000.00 |

3.5.5 Sub-Objective 5: To secure Government and External Stakeholders Commitment and Support

The support of external stakeholders is of paramount importance in contributing to the growth of Clusters. The support that is expected from external stakeholders range from policy support, the provision of services and financial resources. It is, therefore, imperative that EIFCCOS should work to strengthen its relationship with its external stakeholders. Table 19 list the initial activities for consolidating its relationship with the specific stakeholders.

Table20: Objective Five: To Secure Government and External Stakeholders Commitment and Support

| Objective 5: To secure Government and External Stakeholders Commitment and support | | | |
|--|--|---|-----------------|
| Sub-objectives and Activities | Expected Outputs/Outcomes | Stakeholders | Budget Estimate |
| Enter into MOUs with selected stakeholders | <ul style="list-style-type: none"> MOUs signed | Ethiopia Standards Agency, Registrar of Cooperatives, Department of Customs, Academia, UNIDO, COMESA/LLPI | US\$ 20,000.00 |
| Develop and implement a stakeholders management system | <ul style="list-style-type: none"> System developed and implemented; Progress reviewed quarterly | Ethiopia Standards Agency, Registrar of Cooperatives, Department of Customs, Academia, UNIDO, COMESA/LLPI | Br. 100,000.00 |
| Keep stakeholders updated about the developments in the Cluster quarterly | <ul style="list-style-type: none"> Updates circulated in soft copy quarterly | EIFCCOS Management | Br.250,000.00 |

3.6 Conclusion

The implementation of the activities listed under the five objectives would contribute significantly in improving the performance of EIFCCOS. The detailed annual plans would be drawn annually based on the 5 Objectives.

ANNEXES

Annex 1: Findings of the EIFCCOS SMEs Survey

Demographic Characteristics of SMEs

All the surveyed SMEs heads/owners were within 26 to 50 years of age range; the majority (66.7%) within 36-50 years of age. This youth age provides exploreable opportunity for enhanced value addition as young people are generally more prone for technology adoption than older ones.

The duration that the SMEs have been operational varied from 4 to 36 years with the average of 14 ± 8.12 years of experience. The SMEs, thus, have ample experience on which to plan a competitive footwear manufacturing.

Female-owned SMEs were said to be very few in number in the Cluster and unfortunately nil in the surveyed group. This very small proportion of women in SME ownership, despite their representation for up to nearly half of the working force of the SMEs, might be due to resource limitation that requires serious attention from policy makers side.

Large majority (94.5%) of the SMEs owners had secondary or above education level with the remaining (5.5%) of primary level of education. The SMEs, thus, have good literacy level. As education has positive association with technology adoption and higher potential to innovation, it can be said that there is favorable condition for specialized capacity building within EIFCCOS SMEs.

SMEs Business Operations

Asset ownership

Table 1 shows the different machines/equipments and tools owned and used by SMEs for shoe making. The SMEs owners said that most of the machines/equipments and tools they are currently using were the ones in use before Cluster formation and are very old.

Table 1: List the machines owned by SMEs “before” and “after” the Cluster formation

| Before Cluster formation Number of SMEs owning the machines (N= 18) | % | After Cluster formation Number of SMEs owning the machines (N= 18) | % |
|--|----------|---|----------|
| Sewing machine | 83.3 | Sewing machine (singer) | 94.4 |
| Tools | 100 | Tools | 100 |
| Roughing/brushing machine | 33.3 | Roughing/brushing machine | 50 |
| Heater | 55.5 | Heater | 55.5 |
| Skiving machine | 22.2 | Skiving | 27.7 |
| Pressing machine | 16.7 | Pressing | 27.8 |
| Cutting dyes | 16.7 | Cutting dies | 18.8 |
| Rotary sole making machine | 5.55 | Rotary sole making machine | 11.11 |

The overall asset (tools, machines and others equipments) value indicated by the SMEs owners for the “before” period was $44,862 \pm 67585$ Birr or $2,243 \pm 3,379$ USD while for the “after” period $80,252.7 \pm 124,529$ Birr or $4,012 \pm 6,224$ USD. The very significant increase in the asset value in

the “after” period despite the oldness of most of the machineries might simply be due to over valuation by SMEs owners by speculating market inflations. Lack of any kind of record on asset values in all of the visited SMEs also leads to questioning of this almost two fold asset value increase for the “after” period.

Status of Machines/equipments and tools in use by SMEs

The machineries/equipments and tools in use by SMEs were, generally, few in number and in all cases very old. Only 24% of the respondents indicated that the tools and machineries/equipments they have were adequate for their work during the “before” period, For the “after” period, it looks there has been some regress as the percentage of responses that indicated inadequate was decreased to 55.5% (Table 4). As to the reliability of the machineries/equipments the majority (76% for the “before” and (76.5% for the “after” period) judged reliable (Table 4). It is important to note that SMEs be facilitated and have their capacities built in machineries/equipments so that they become competent for the intended intra regional trade. Moreover, technological interventions are pivotal in addressing the underlying value addition initiatives that are pertinent in driving the region’s desire to become a global player.

Table 4: Adequacy and reliability of machineries/equipments and tools owned by SMEs

| S/N | Variable | Before Cluster formation (in %) | After Cluster formation (in %) |
|------------|---|--|---|
| 1 | Adequacy of tools and machines /equipments | | |
| | • Adequate | 24 | 44.5 |
| 2 | Reliability of tools and machineries/equipments | | |
| | • Very reliable | 13.3 | 23.5 |
| | • Reliable | 80 | 76.5 |
| | • Not reliable | 6.7 | 0 |

Employees’ size

Average number of skilled and semi-skilled employees per SME for the periods “before” forming the Cluster cooperative were, respectively, 3.72 ± 2.2 and 3.23 ± 2.89 . For the “after” clustering period there was increase in both skilled and semi-skilled categories (respectively, 3.88 ± 2.66 and 5.65 ± 14.2). The semi-skilled employees size that was significantly increased in the “after” period shows the job creation potential of the sector as semi-skilled are mostly the newly employed workers. The overall number of employees per SME (including SMEs owners) were 6.13 ± 3.4 for the “before” and 10.12 ± 13.83 for the “after” clustering periods.

Footwear making skills

The majority of SMEs owners said that they acquired footwear making skills from friends and relatives and none of the surveyed SMEs owners had access to Vocational Training Institutions. Previous job was also indicated by a quarter of the respondents as initial source of acquiring the skill. The EIFCCOS cluster management needs to do more in facilitating access to skill enhancing and other trainings so that members could uphold the importance of clustering.

Fixed and Operational Costs

Fixed and Operational Costs of SMEs for the periods “before” and “after” clustering were indicated as considerably different. All SMEs owners concur that their rent costs were reduced

by 30% to 50% after clustering as they are asked to pay only nominal rents in the buildings that are allotted by the Government to the Cluster. However wage and other operational bills increased in the “after” period, partly due to the physical location of the Cluster center (some 15 KM away from the market Center (Merkato) that also used to be the working site for the SMEs before cluster formation.

Source of working capital

Own savings represented more than 60 percent of SMEs working capital both in the “before” and “after” periods. Next important source of capital was friends and relatives followed by financial institutions as shown in Figure1.

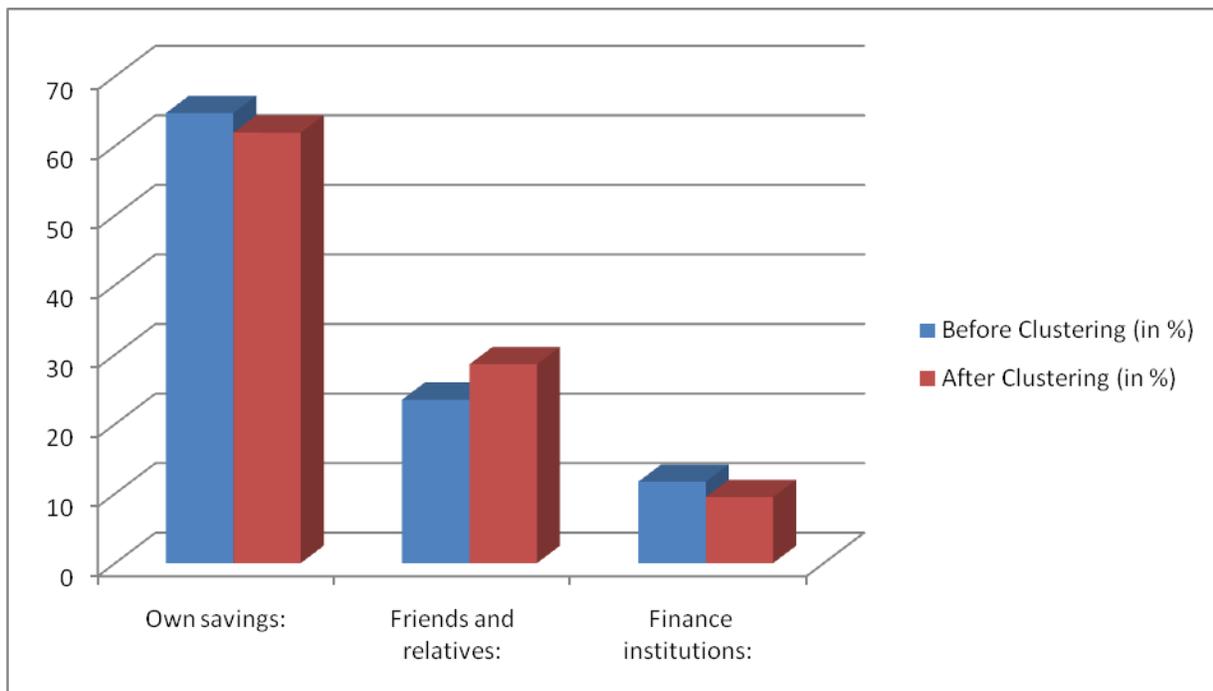


Figure 1: Source of working capital of the SMEs “before” and “after” EIFCCOS cluster formation

Record keeping

Despite the appreciable literacy level, the SMEs experience in keeping business records were very poor, not to say inexistent. Neither the asset values nor the day to day business operations were systematically recoded in any one of the surveyed SMEs. Thus the need for imparting training and/or awareness creation on the importance of record keeping to all SMEs is very obvious.

Challenges in running SME business

Interviewed SMEs made 130 citations of constraints that affect the running of their footwear manufacturing businesses. Table 2 shows the summary of distribution of the citations for the “before” and “after” clustering periods. Working capital was the most frequent challenge followed by poor equipment in both the “before” and “after” periods. However, there were some difference in the ranking of other constraints for the two periods (Table 2). The Table also

depicts intensified challenges faced by SMEs in the “after” period with regard to working capital, equipments, competition and market problems.

Table 2: Challenges faced by SMEs in running their business both in the “before” and “after” clustering periods

| | “Before” period (Total number of Citations=71) (in %) | “After” period (Total number of Citations=59) (in %) |
|----------------------------|---|--|
| Working capital | 21.13 | 28.8 |
| Poor equipment | 19.72 | 28.8 |
| Electricity | 8.45 | |
| Premises | 16.9 | 1.7 |
| Running or clean water | 9.86 | 1.7 |
| Lack of technical support | 7.04 | 8.47 |
| Competition | 9.86 | 16.95 |
| Market problem | 2.8 | 6.78 |
| Cluster Management | | 1.7 |
| Raw material | 2.8 | 3.39 |
| Sale of products on credit | 1.4 | 1.7 |

Procuring Raw Materials

The large majority of SMEs (94%) were/are procuring the raw materials from the local market (Addis Ababa) both during the “before” and “after” periods. Cluster Cooperative is also providing raw material in the “after” but was qualified by SMEs owners as inadequate.

Challenges associated with procuring raw materials

Interviewed SMEs owners made a total of 66 citations regarding challenges of acquisition of raw materials for their footwear production activities. Table 3 shows the distribution of the more frequently cited challenges. Poor quality was the most frequently cited challenge for the “before” period. For the “after” period, price was the most frequently cited challenge followed by transport problem and quality in the third position. Transport was not an issue in the “before” period, but became the second most important constraint in the “after” period. This is, most likely, due to the location of the Cluster Cooperative, that is situated at some 10 to 15 Km away from the market area where the SMEs were operating before forming the Cluster. Challenges like quality problem, shortage in the market and variety problem seem to be less pronounced in the “after” period.

Table 3: Challenged of SMEs in procuring raw materials for footwear making

| Challenge | Before the Cluster Total number of Citations=28 (in %) | After the Cluster Total number of Citations=38 (in %) |
|------------------------------|--|---|
| Price | 28.6 | 39.47 |
| Transport | | 26.31 |
| Poor quality | 46.4 | 21.05 |
| Shortage in the local market | 17.85 | 10.52 |
| Limited variety | 7.14 | 2.6 |

Types of footwear manufactured price details

Summary of data on kinds of footwear manufactured, production cost and average selling prices at production units' gates levels are presented in Tables 5. In general, shoes selling prices were found lower than the production cost for men's, ladies' and school shoes, indicating serious problem in price setting which was aggravated by lack of business record keeping. The viability of a business enterprise depends, among others, by its ability to make profit. Any business that is unable to produce more cash than it consumes will die. As depicted in Table 5 the EIFCCOS SMEs were not making any profit in the majority of their products; the only positive margin was observed for military shoe. This shows the urgent need for training of EIFCCOS Cluster members in business operation and price settings.

Table 5: Cost-benefit details of footwear as indicated by the SME owners

| Material | Men shoe cost/pair (Birr) | Military shoe cost/pair (Birr) | Ladies shoe cost/pair (Birr) | Boys shoe cost/pair (Birr) | Sandals shoe cost/pair (Birr) |
|-----------------------|---------------------------|--------------------------------|------------------------------|----------------------------|-------------------------------|
| Leather | 57.31 | 74.20 | 44.94 | 44.09 | 19 |
| Sole | 21.8 | 42 | 28.66 | 24.5 | 53 |
| Insole | 12.5 | 15 | 6.4 | 12.5 | |
| Shanks | 4.8 | 25 | 2.12 | 2.66 | |
| Glue | 10.89 | 6.5 | 7.9 | 3.5 | 3 |
| Others | 14.62 | 10 | 11.75 | 12 | 4.15 |
| Labour | 30 | 25 | 31.25 | 21.25 | 18 |
| Total Production Cost | 151.92 | 197.7 | 133.02 | 120.5 | 97.15 |
| Wholesale price | 143.75 | 200..00 | 105.00 | 84.67 | 97.00 |
| Gross Margin | -8.17 | 2.3 | -28.02 | -35.83 | -0.15 |