



MALAWI LEATHER VALUE CHAIN STRATEGY

(2015-2024)

MAY 2015

COMESA
Leather and Leather Products Institute
(COMESA/LLPI)



VISION

To be among the top ten subsectors in Malawi with regard to competitiveness by 2024.

MISSION

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

ACKNOWLEDGEMENT

It would be impossible to address and acknowledge all individuals who in one way or another contributed towards the realization of this **Malawi Leather Value Chain 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 Ministry of Industry and Trade of the Government of Malawi 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 consultations process.

No fewer thanks go to Mr. Nicholas Mudungwe, Cluster Development Expert and Dr. Tadesse H. Mamo, Training, Consultancy and Extension 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. Dr³ Mwinyikione Mwinyihija, Executive Director of COMESA/LLPI should be appreciated for his leadership, 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 errors confronted in the development and presentation of this strategy. However, necessary precautionary measures were undertaken to minimize the error through a well-designed consultative process, both at institutional and member state level.

STATEMENT BY THE HONOURABLE MINISTER OF INDUSTRY AND TRADE

Leather is one of the world's most widely traded commodities. According to International Trade Centre the trade in leather and leather products is worth more than US\$ 100 billion per year and it is predicted to grow. The Malawi leather sector is bursting with potential, but there is a wide gap between resources and production. The absence of proper value addition along the value chain remains the key challenge in the country.

The leather industry in Malawi has for the past 40 years been characterized as an inward oriented sector with heavy reliance on domestic market. Malawi participation in the global leather value chain is very small; its entry point is at the lowest level, i.e. exporting mainly raw hides and skins.

As we aim to increase the export basket in Malawi, the ministry considers the leather sector as a strategic sector which needs to be promoted. It is against this background that the Ministry of Industry and Trade requested COMESA-Leather and Leather Products Institute to assist in the development of the Leather Value Chain Strategy. This strategy will be a blueprint which will map out the way forward regarding leather sector development. Its implementation will transform the Malawian Leather Value Chain into a modern and competitive subsector specializing in the production of value added products through the application of modern and cleaner technologies, collaboration, capacity building, policy guidance and resource mobilization.

My Ministry is very excited to finally have the strategy on leather in place and I will make sure that the sector receives the proper attention.

Special gratitude goes to the COMESA/LLPI for their financial support and technical assistance in the development of this important strategy.

Hon. Joseph Mwananveka, M.P.
Minister of Industry and Trade

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Competitiveness

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LIST OF ACRONYMS

| | |
|--------------|--|
| COMESA: | Common Market for Eastern and Southern Africa |
| COMESA/LLPI: | Common Market for Eastern and Southern Africa – Leather and Leather Products Institute |
| FAO: | Food and Agriculture Organization |
| F.O.B: | Free On Board |
| GDP: | Gross Domestic Product |
| HS: | Harmonized System |
| IS: | Index of Specialization |
| ITC: | International Trade Centre |
| KG: | Kilogram |
| LDC: | Less Developed Countries |
| LLPI: | Leather and Leather Products Institute |
| MFN: | Most Favoured Nation |
| NASME | National Association of SME |
| PA: | Per Annum |
| RCA: | Revealed Comparative Advantage |
| SMEs: | Small and Medium Enterprises |
| SMEDI | Small & Medium Enterprises Development Institute |
| USD: | United States Dollar |
| SWOT: | Strengths, Weaknesses, Opportunities and Threats |
| UNIDO: | United Nation Industry Development Organization |

EXECUTIVE SUMMARY

The Malawian economy is agro based, with agriculture contributing approximately 30%, to an estimated GDP of MK1, 157 billion in 2013. Retail and manufacturing take the second and third positions, contributing 15.3% and 9.4% respectively. The low contribution of the Manufacturing Sector is a clear indication that most of the agricultural commodities being produced in Malawi are being exported in their raw state, thereby foregoing the benefits associated with value addition.

The Malawi Growth and Development Strategy II (MGDS II) represents a decisive and strategic single reference document to be followed by all stakeholders to achieve the goal of wealth creation through sustainable economic growth and infrastructure development. The fundamentals of the MGDS II are based on the shared Vision 2020 and, therefore, it will guide the national development process by building on the gains, lessons and best practices achieved during the implementation of the predecessor strategy.

The Leather Value Chain has the potential to significantly contribute to the economic growth of the Malawian economy. Based on its animal resource base of goats, bovine and sheep the value chain has the potential of grossing US\$102 million dollars (MK45 billion), that is if all hides and skins produced in Malawi are processed into finished goods. It is thus estimated that at full potential optimization the value chain could contribute 3.9% to Malawi's Gross Domestic Product (GDP).

The following are the main issues, which were identified during the Stakeholders Workshop and through the quantitative analysis of data:

- Lack or no collaboration among value chain players;
- Limited availability of finished leather and other accessories for footwear and leather goods manufacturing;
- Limited or no support from Government, Academia and other International NGOs to support the development of the sector;
- Shortage of technical and managerial skills among the SMEs;
- Absence of Technical Institutions supporting the development of the leather value chain;
- Production of poor quality hides and skins;
- Limited access to suitable capitalization and working capital finance;
- Limited availability of suitable machinery and tools;
- Absence of hides and skins production, preservation and grading standards; and
- Dependence of SMEs on informal imports.

The implementation of the following strategic objectives would stimulate the growth of the Malawi leather value chain from estimated current earnings of US\$2 million towards its optimal potential of US\$102 million dollars.

- To facilitate increased production of quality hides and skins for improved contribution of the sector to national development goals;
- To Capacitate SMEs/ cottage industries for higher end value addition and competitiveness in domestic, regional and international markets
- To promote quality and cleaner environmental sustainable production techniques and systems.

It is fundamental to point out that this strategy is owned by all Leather Value Chain Stakeholders, thus its success hinges on the level and intensity of collaboration of these Stakeholders and Government in planning, fundraising, implementation, monitoring and evaluation.

CHAPTER I: CONTEXT SETTING

1. Introduction

Malawi is one of the most densely populated countries in Southern Africa, with a population density above 160 people per square kilometer. The past twenty years has witnessed a rapid growth of people living in urban areas, rising from 11.6% to 19.8% in 1990 and 2010 respectively. This contributed to the rising number of unemployed people in urban areas. Given the scenario, it is imperative that the Government of Malawi should design and implement strategic plans that are geared to retarding rural urban migration and employment creation, by supporting SMEs, which are involved in agro value addition activities. Hides and skins collection, and production of footwear and leather goods are some of the small scale ventures, which may enhance the livelihoods of rural, peri-urban and urban unemployed people in Malawi.

1.1. Structure of the Economy and Sector Performance

The Malawian economy is agro based, with agriculture contributing approximately 30%, to an estimated GDP of MK1, 157 billion in 2013. Retail and manufacturing take the second and third positions, contributing 15.3% and 9.4% respectively. The low contribution of the Manufacturing Sector is a clear indication that most of the agricultural commodities being produced in Malawi are being exported in their raw state, thereby foregoing the benefits associated with value addition. The structure of the Malawian economy and the growth rates of the sectors are summarized in Table 1:

Table 1: Structure and Growth of the Malawian Economy 2011

| Main Sectors | Share in 2013 Real GDP (%) | Growth Rates (%) |
|---|----------------------------|------------------|
| Agriculture, Forestry and Fishing | 29.9 | 5.9 |
| Mining and Quarrying | 1.0 | 7.6 |
| Manufacturing | 9.5 | 5.7 |
| Electricity, Gas and Water Supply | 1.3 | 2.7 |
| Construction | 2.9 | 5.5 |
| Wholesale and Retail Trade | 15.3 | 4.3 |
| Transport and Storage | 2.7 | 5.6 |
| Accommodation and Food Services | 1.9 | 4.5 |
| Information and Communication | 3.9 | 7.6 |
| Financial Services and Insurance Services | 5.1 | 5.2 |
| Real Estate Activities | 8.0 | 2.5 |
| Professional and Support Services | 0.3 | 5.6 |
| Public Administration and Defense | 2.0 | 2.7 |
| Education | 2.6 | 5.4 |
| Health and Social Work Activities | 2.7 | 5.0 |
| Other Services | 4.9 | 5.5 |

2010=100

Source: Malawi Annual Economic Report 2014: Ministry of Finance, Economic Planning and Development.

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

Development policies and strategies are normally expected to play a mutually reinforcing process and also to complement each other, hence new policies or strategies should always be drafted taking cognizance of the existing policies. Additionally policy consistency and coherence is fundamental in ensuring systematic and coordinated implementation in a country.

Malawi has a number of policies whose main objective is to contribute to sustainable growth and development of the economy. It is therefore important to assess the relationship between this draft leather value chain strategy with some of the development policies currently in place. The four strategic objectives of the Malawi Leather Value Chain Strategy are to:

- Facilitate increased production of quality hides and skins for improved contribution of the sector to national development goals
- Capacitate SMEs/ cottage industries for higher end value addition and competitiveness in domestic, regional and international markets
- Promote Cleaner and Environmentally Sustainable Production Techniques and Systems
- Facilitate horizontal and vertical collaboration of chain players and other relevant stakeholders

1.2.1. Malawi Growth and Development Strategy II

The Malawi Growth and Development Strategy II (MGDS II) represents a decisive and strategic single reference document to be followed by all stakeholders to achieve the goal of wealth creation through sustainable economic growth and infrastructure development. The fundamentals of the MGDS II are based on the shared Vision 2020 and, therefore, it will guide the national development process by building on the gains, lessons and best practices achieved during the implementation of the predecessor strategy. The relationship between the Draft Leather Strategy and MGDS II is summarized in Table 2.

Table 2: The Strategy Relationship with MGDS II

| | The Relationship between Malawi Growth and Development Strategy and the Leather Strategy | | | |
|---|---|------------|--------------|-------------|
| | Leather Value Chain Objectives | | | |
| Malawi Growth and Development Strategy II Key Priority Areas | One | Two | Three | Four |
| Agriculture and Food Security; | x | | | |
| Energy | | | | |
| Industrial Development | x | | x | x |
| Mining and Tourism; | | | | |
| Transport Infrastructure and Nsanje World Inland Port; | | | | |
| Public Health, Sanitation, Malaria and HIV and AIDS Management; | | | | |
| Integrated Rural Development; | x | x | x | x |
| Green Belt Irrigation and Water Development; | | | | |
| Child Development, | | | | |
| Youth Development and Empowerment. | x | x | x | x |
| Climate Change, Natural Resources and Environmental Management | | | x | |

The assessment in Table 2 demonstrates that the prioritized intervention for the development of the leather value chain has a significant logical link with the Vision 2020; hence, the implementation of these priorities would feed into the realization of the Vision 2020.

1.2.2. Draft Malawi National Industry Policy

The purpose of the Draft Malawi Industrial Policy is to provide a coordinated and centralised policy framework for policy making that is conducive to encouraging the industrialization of Malawi's economy. The Industrial Policy establishes a policy framework for continually updating and adapting the range of Government Policies (such as energy policy, agriculture policy, land policy, tax policy and others) that impinge on the development of the Malawian economy such that binding constraints to long-term economic growth can be addressed. The relationship between the Draft Leather Value Chain Strategy and the Draft Malawi National Industry Policy is summarized in Table 3.

Table 3: The Strategy Relationship with the Draft Industrial Policy

| | The Relationship between National Industry Policy and the Leather Strategy | | | |
|--|---|------------|--------------|-------------|
| | Leather Value Chain Objectives | | | |
| Malawi Growth and Development Strategy II Key Priority Areas | One | Two | Three | Four |
| Diversification of exports and structural transformation | x | x | x | x |
| Support existing export clusters | x | | | x |
| Significantly improve the policy making process | | | | |
| Address the 8 main constraints to industrialization | x | x | x | x |
| Develop a robust process of learning for the population and the productive economy | x | x | x | x |

The illustration from Table 3, shows that the Draft Leather Value Chain Strategy demonstrates a high degree of strategic linkage with the Draft Malawi Industrial Policy, hence the two policies would complement each other. The positive relationship would thus enhance the pace of industrialization in Malawi.

1.3. Importance of the Leather Value Chain

1.3.1. Global Level

The leather value chain, globally, is estimated at over USD 100 billion.¹ A comparison of this value chain with other commodities reveals that its trade is greater than the combined trade of meat, sugar, coffee and tea; see Figure 1 below. Despite this immense importance, the sector has not received much attention, especially in many developing countries, when compared with other commodities, whose production and marketing are championed by institutional support, for example Meat Commission, Tea or Coffee Boards, etc. The absence of an institutional support to the leather value chain has retarded its growth, as it has not attracted the desired policy and financial support from Central Governments and other relevant stakeholders.

¹ The USD 100 billion excludes leather blended products, e.g. sports shoes and fashionable bags.

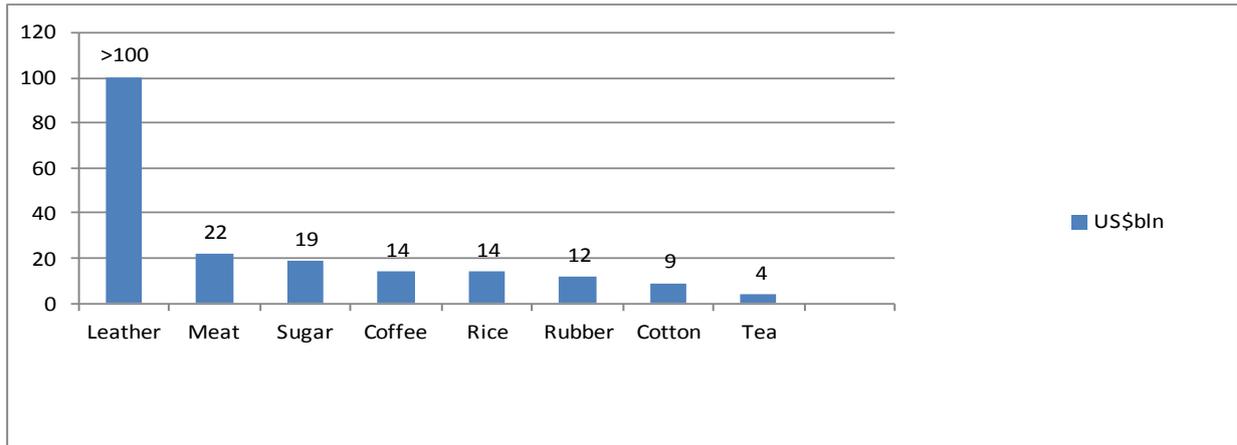


Figure 1: Global Importance of the Leather Value Chain

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

Table 4: Global Dynamics in the Trade of the Leather Value Chain

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

Source: FAO (2012)

1.3.2. COMESA Situation

The COMESA Region is made up of 19 African countries, which own approximately 11% and 21% of livestock globally and in Africa respectively; however its contribution to the global trade is estimated at a paltry 3%. This is attributed mainly to a number of factors ranging from pre²-, peri³- and post⁴-slaughter challenges and limited or no value addition to hides and skins produced in the region. Figure 2 below illustrates the inverse relationship between the relative significance of the COMESA region in the global value chain, as it progresses downstream. Note that the illustration in the figure below relates only to bovine animals and bovine light leather and footwear. The illustrated situation is a true reflection of what leather proportion is obtained with regards to other types of hides and skins.

² Pre-slaughter defects – any damage caused by different factors like poor management, genetic make-up, disease and nutrition etc.

³ Peri-slaughter defects: any defect that occur by several reasons, like failure to rest animals for certain periods of time before slaughtering, incomplete bleeding, poor flaying of hides and skins, etc.

⁴ Post-slaughter defects- groups of defects that take place after the hides/skins are flayed, and include poor curing, poor handling, improper storage and poor tanning process

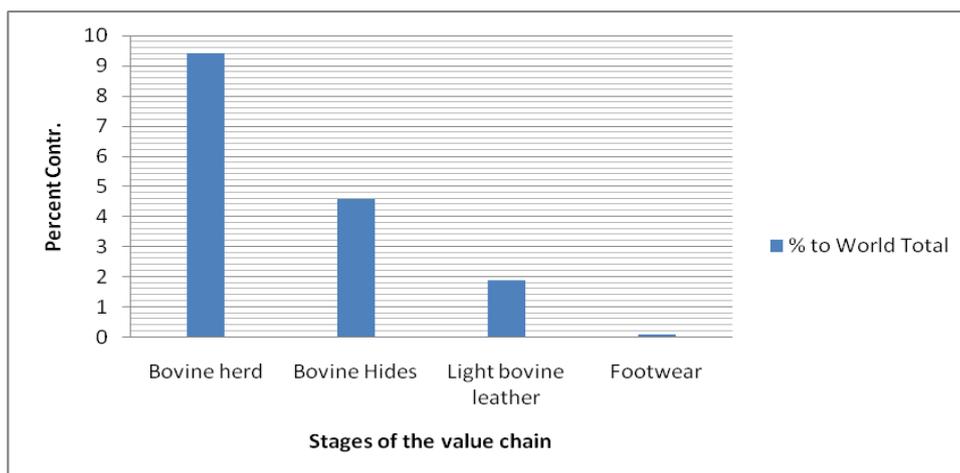


Figure 2: Stages of the Value Chain

Source: Computed within COMESA/LLPI reports and FAO 2012

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. Malawi and other countries in the region can therefore draw practical lessons from Ethiopia.

1.3.3. Market Size of Footwear in the COMESA Region

The 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, glue and other accessories consequently creating more indirect jobs. Total output of leather footwear in the COMESA region was estimated⁵ at 80.6 and 92.3 million pairs in 2001 and 2011⁶ 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 translates⁷ 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, this is not being satisfied per annum. This is, therefore, a market opportunity for SMEs to capitalize on without any or limited competition from locally established firms and imports. Figure below illustrates the sharp growth in footwear imports from the rest of the world, as opposed to slow or almost stagnant growth in intra trade in the COMESA region.

⁵ FAO Compendium of Statistics

⁶ FAO Compendium of Statistics

⁷ Assuming that the import price of USD10 per pair

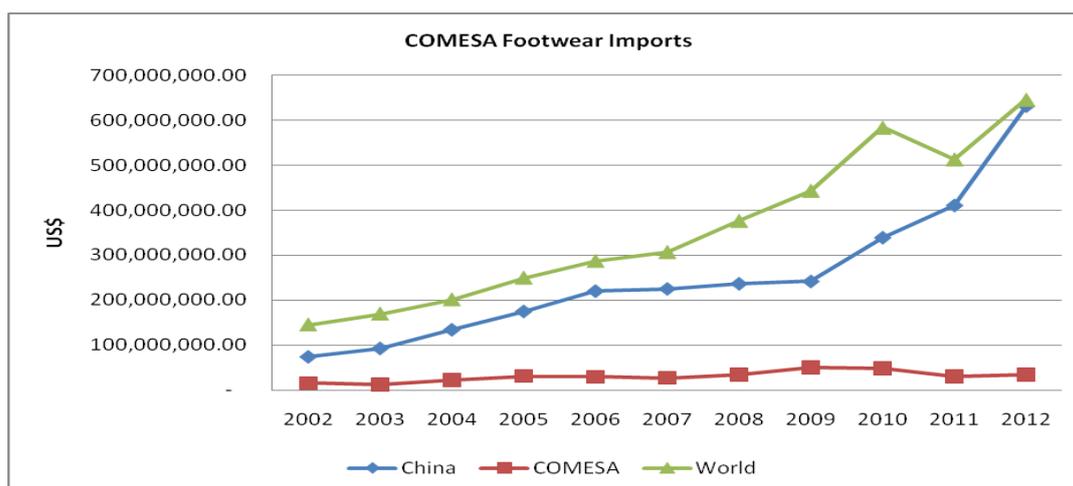


Figure 3: COMESA Imports of Footwear from COMESA Region, China and the World

Source: COMESA/LLLPI computations from ITC Trade Map data

1.4. Importance of Leather Value Chain in Malawi

In Malawi, goats are the dominant livestock contributing approximately 65.9% and 74.9% in 2003 and 2012 to the total livestock figures respectively. Thus the importance of goats in the Malawi economic has been growing over the years, this may be attributed to limited pastures, which favors the production of small ruminants, as Malawi is one of the most densely populated in Southern Africa. In the period 2003 to 2012 the goats herd has grown by 144% followed by sheep at 108% and lastly by the bovine herd, which registered a 51% growth rate. The positive growth in all categories of livestock indicates the growth in the potential of the livestock sector to provide the needed feed stock into the leather value chain. Details of the growth trends of livestock in Malawi are summarized in Table 5.

Table 5: Trends in Livestock Size

| Livestock (000's) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Bovine | 782 | 765 | 778 | 799 | 871 | 947 | 983 | 1,070 | 1,111 | 1,182 |
| Sheep | 108 | 227 | 157 | 175 | 186 | 189 | 200 | 214 | 229 | 225 |
| Goats | 1,717 | 1,922 | 1,961 | 2,301 | 2,720 | 3,106 | 3,480 | 3,894 | 4,443 | 4,200 |

Source: FAO

According to statistics provided in Table six, the bovine subsector has produced more hides and skins than the goats sector despite the fact that the former is a third of the later. This situation could be explained by the fact that most of the goats are slaughtered in back yards and markets, thus their skins may not be entering the formal hides and skins collection system. In addition to this it was reported that most of the sheep skins are bought in advance by Tanzanian informal traders, thus they may also be exported informally hence escaping the formal recording systems. This is an area requiring extension support, as Malawi goats skins are highly rated because of their goat grain quality.

Table 6: Hides and Skins Production

| Hides & Skins (million pieces) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|-----------------------------------|------|------|------|------|------|------|------|------|------|------|
| Bovine | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 |
| Sheep | 0.0 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Goats | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |

Source: FAO

In addition to the above the Leather Value Chain has the potential to significantly contribute to the economic growth of the Malawian economy. Based on its animal resource base of goats, bovine and sheep the value chain has the potential of grossing US\$102 million dollars (MK45 billion), that is if all hides and skins produced in Malawi are processed into finished goods. It is thus estimated that at full potential optimization the value chain could contribute 3.9% to Malawi's Gross Domestic Product (GDP). The industry is estimated to be earning MK898 million, versus a potential of MK45 billion. In addition the industry can potentially generate 3,500 jobs in the manufacturing of footwear and a couple of thousand in accessories manufacturing and footwear distribution and marketing.

1.5. Conclusion

This Chapter has laid the foundation for generating a comprehensive understanding of the Malawi leather value chain, by looking at the structure of the economy, the relationship of some of the policies, with objectives of the leather value chain⁸, global, regional and national situation of the leather value chain. The next Chapter adopts the value chain approach to identify and analyze the dynamics and constraints in the value chain.

⁸ Presented in detail in the Chapter dealing with the Strategy

CHAPTER II: SITUATIONAL ANALYSIS OF THE VALUE CHAIN

2. Introduction

This Chapter presents a situational analysis of the Malawi Leather Value Chain; thus, it lays the basis for identifying issues, gaps and opportunities associated with the value chain. The following important aspects are analyzed using both qualitative and quantitative data: value chain map; potential of the leather value chain; opportunities forgone due to the exporting of raw hides and skins and wet blue; income distribution in the marketing of bovine hides; trade performance; gap analysis and a regional competitive comparative analysis. This analysis builds a foundation for identifying strategic interventions that are important in enhancing the performance of the Malawian leather value chain.

2.1 Industry Structure and Value Chain Map

Leather value chain displays social and economic relationships, thus, their sustainability is hinged on ensuring that the economic benefits are shared commensurate to the level of contribution each economic agent invests in.. It is, therefore, imperative that a deep appreciation of how the income generated in the value chain is shared and developed. It is in this line of thought that Kaplinsky and Morris (2000) asserts that mapping the range of activities in a value chain provides the basis of decomposing the total value chain earnings into the rewards which are earned by different parties in the chain.

One common challenge, which has been observed, is that usually there is a lack of correspondence between the contributions by economic agents and the income which arise from these activities. A mismatch between contributions and rewards may undermine the sustainable performance of a value chain. This matter would be explored further in sub-section 2.2. The Malawi leather value is inclusive of livestock farmers, livestock traders, butcheries, slaughter facilities owners, hides and skins traders and exporters, tanners, artisanal footwear and leather footwear and goods manufacturing. The schematic presentation of the leather value chain in Malawi is illustrated in the Figure 4.

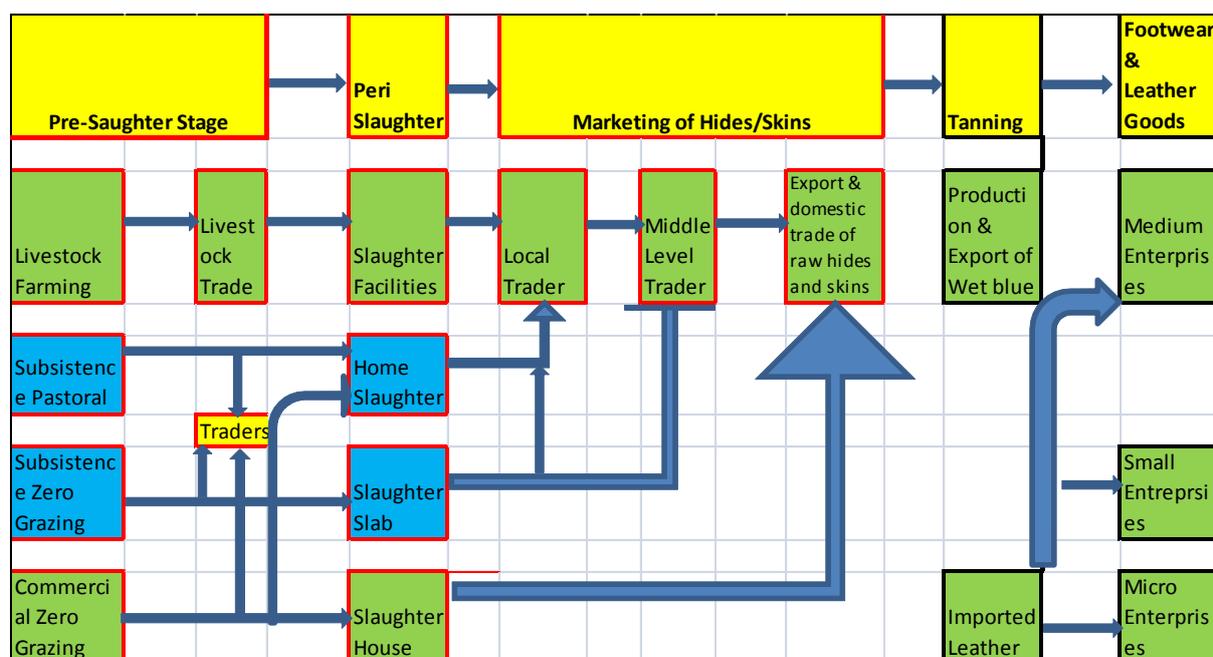


Figure 4: Malawi Leather Value Chain

Source: COMESA/LLPI after the National Stakeholders Workshop, Lilongwe, Malawi (2014)

Figure 4 illustrates the beginning and the end of the leather value chain in Malawi. For instance, all collected hides and skins are either exported in raw state or as wet blue. There is no production of finished leather. SMEs involved in the production of footwear or leather goods depend on imported finished leather sourced mainly from Kenya, Zambia and Zimbabwe. It is important to note that before, Malawi used to have a tannery, which was producing both wet blue and finished leather. One Multinational company which used to manufacture footwear in Malawi now imports close to 95% of footwear from its sister companies in Kenya and Zimbabwe.

Leather Value Chain Stakeholders who participated in the Strategy Formulation Workshop which was held on 28-29 September 2014 in Lilongwe, Malawi, agreed that a large proportion of livestock is being reared under subsistence level. Thus, open grazing, poor animal husbandry and limited access to extension support was contributing to a high incidence of pre-slaughter defects, which are associated with diseases (e.g. lumpy skin, poxes, etc.), tick bites, scratches and brand marks, amongst many others. In addition they highlighted the main challenges, which SMEs were facing in sourcing all the inputs required in manufacturing of footwear. Details of the issues impacting negatively on the performance of the Malawian Leather Value Chain are discussed in detail in Chapter III.

In the value chain, the hides and skins become commodities of economic importance at the time when they are separated from the carcass. Thus, the first economic agent to receive economic value of a hide is a household, butchery or slaughter place owner depending on circumstances. For example a farmer or household would become an owner of hide or skins when an animal is slaughtered at homestead.

2.2 Income Distribution in Hides and Skins Marketing

The mapping of the range of activities in the chain provides an opportunity to disaggregate total value chain earnings into the rewards which are received by different parties in the chain. The relationship between income distribution and the level of contribution by each economic agent along the value chain is very important, as it contributes significantly on sustaining the efficiency and effectiveness of the value chain.

Unfair distribution of income, which does not reward economic agents commensurate to their contribution, may undermine the effectiveness and efficiency in the performance of the chain. Economic agents who are underpaid may offer a compromised service, which they deem to be commensurate to the income they are receiving. For example, hides and skins collectors may economize on the use of salt, thus downgrading the quality of hides and skins; low collection levels of hides and skins may be recorded, as hides produced far away from the collection centre may go uncollected, once the price paid does not compensate for the increased transport cost.

Observation of hides and skins, which were being offloaded at Liwonde Tannery, showed that poor preservation was common in Malawi; this could be attributed to lack of skills and awareness and also due to shortage of salt. A simulation of the amount of gross margin earned at each level of the value chain in Malawi, from the moment the hide is harvested from the carcass, is illustrated in Figure 5

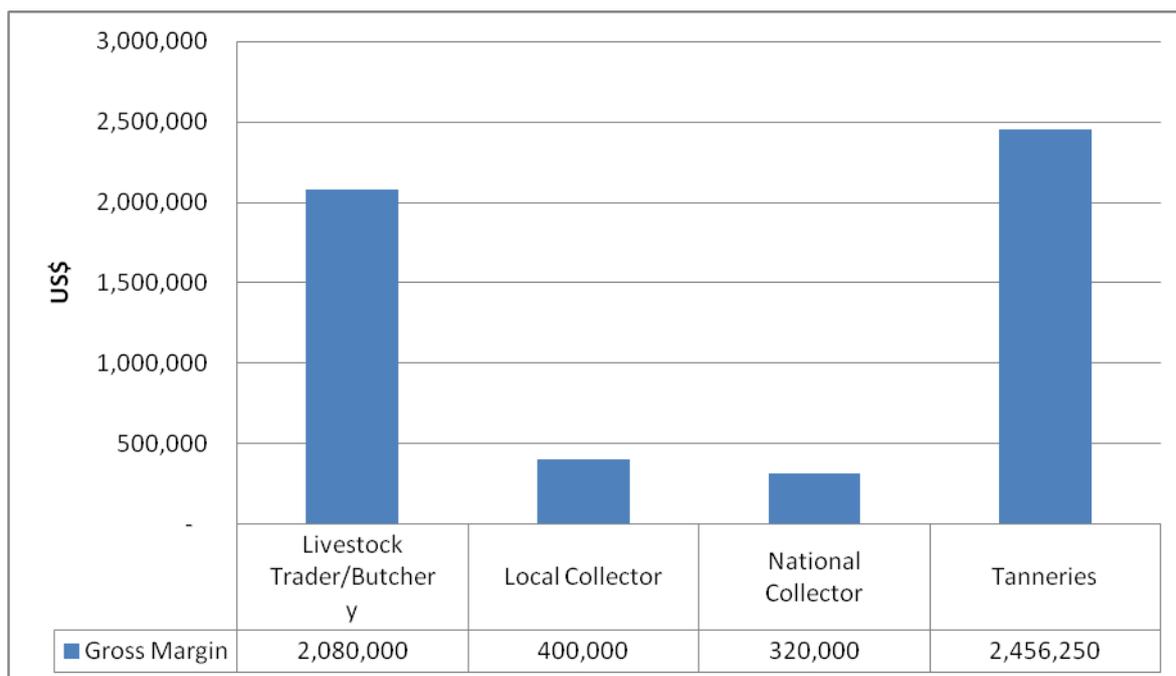


Figure 5: Gross Margin Distribution

Source: Computed by LLLPI based on Stakeholders consultations

Source: COMESA/LLPI, based on data generated during Stakeholders meetings and Stakeholders Workshop.

The computation illustrated above is based on the assumption that all bovine hides and skins collected in Malawi are tanned before being exported; however; this is not the case. Nevertheless, it demonstrates in terms of proportion the gross margins being received by economic agent at each segment of the leather value chain. The earnings attributed to Tanners, should be adjusted to 60%, given that approximately 40% of the hides and skins are exported in raw state, which translates to a gross margin of US\$1.5 million per annum.

Livestock traders/butchery owners⁹, command the second highest gross margin earnings, because when they purchase livestock, the price excludes the fifth quarter¹⁰; thus they do not pay for it. Once the animal is flayed they sell the hides and skins in green state, before incurring any preservation cost. Past projects have concentrated on supporting slaughterhouse owners to work on the reduction of flay cuts. The results have been disappointing, as the intervention focused on the wrong agent (slaughter house owner), who does not directly benefit from the marketing of the hides and skins in instances, when hides and skins are not used as slaughter fees. The hides and skins are owned by the livestock trader, who in real terms only pays a farmer 60% of the live weight, and gets the hide, blood, bones, intestines/casings, fat and organs for free. Hence there is low economic incentive for the livestock trader to invest in ensuring that the quality of hides and skins is improved, as any amount he receives is a bonus.

In the final analysis livestock traders/butcherries are the major beneficiaries, because their gross margin equates to net profit; as they receive the hide/skin for free and they are usually not involved in the preservation of hides and skins, as they sell them immediately they are produced. This, therefore, entails that future interventions aimed at addressing peri-slaughter defects must target livestock traders, as these are the economic agents who are earning the highest income that is not commensurate with their input.

⁹ These are technically the same people as observed in the field, they buy livestock and take in to slaughter places for slaughtering and preparation then sell both meat and the hides.

¹⁰ The dressed carcass is the four quarters of the animal after slaughter that contains the main cuts of both prime and processing meat. The dressed carcass makes up about 60% of the live weight of cattle and two-thirds of the live weight of pigs. The remaining live weight is taken up by the hide, blood, bones, intestines/casings, fat and organs, known as the fifth quarter.

2.3 The Potential of the Malawi Leather Value Chain

Most Least Developing Countries' (LDC) growth potential is undermined because they export raw and partially processed commodities, which fetch usually low and erratic prices in the global market. It is imperative to note that the export of raw hides/skins, wet blue and crust entails forgone opportunities with regard to value addition, which could have been attained in Malawi. Put simply, the export of wet blue means the exportation of jobs, foreign currency earning opportunities and other indirect benefits, which could have been generated in Malawi, had the large proportion hides and skins been transformed into finished leather or leather goods. In addition, more losses are incurred due to the resultant production of low quality hides and skins, which fetches lower prices in the international markets. As it was reported, the prevalence of pre, peri and post-slaughter defects was very high in Malawi; this renders more than 65-70% of hides and skins produced to be categorized to grade three or worse.

A partial equilibrium model was employed to compute the potential losses that Malawi was incurring per annum due to pre, peri and post slaughter defects and the export of wet blue and raw hides and skins. Based on the hides and skins production of 2012, the Malawi leather value chain has the potential of reaching a minimum direct value of USD 102 million per annum.

Gross losses incurred due to the prevalence of pre, peri and post slaughter defects were computed based on equation 1, and the apportionment between pre and peri/post slaughter defects was based on a study by Mwinyihija¹¹ (2014), which found out that 48% and 42% of defects are attributed to pre and peri and post slaughter defects respectively. The losses incurred on bovine, sheep and goats hides and skins are based on the same equation. See equation 1 below, which was used in the computations of gross pre, peri and post slaughter defects. Cumulative potential losses due to pre, peri and post slaughter defects were estimated at US\$2,7 million in Malawi.

$$= \sum G_1 P_1 - \sum (aTQP_1 + bTQP_2 + cTQP_3 + dTQP_4 + eTQP_5 + fTQP_6) \quad (\text{Equation 1})$$

Where

G_1 is 100% first grade

P_n prices with respect to grades 1 to 6

a to f : Ratios of grades of hides

TQ : Total output of hides by a country

Table 7: Estimates of Pre, Peri and Post Slaughter Defects on Bovine and Goats/Sheep Hides and Skins

| Type of Hides/Skins | Potential Earnings Assuming all Hides are First Grade | Actual Earnings | Loss | Pre-slaughter losses | Peri and post slaughter losses |
|---------------------|---|-----------------|-----------|----------------------|--------------------------------|
| Apportionment Ratio | | | | 0.48 | 0.42 |
| Bovine | 1,800,000 | 646,000 | 1,154,000 | 553,920 | 484,680 |
| Goat and Sheep | 6,720,000 | 2,327,850 | 4,392,150 | 2,108,232 | 1,844,703 |
| Total Estimate | 8,520,000 | 2,973,850 | 5,546,150 | 2,662,152 | 2,329,383 |

Source: Computations based on FAO data.

¹¹ Mwinyihija, M. (2014). A prognosis of the leather sector in Malawi; The upheavals and antidotes associated with value creation. *Management* Vol.4 (1), pp. 21-29.

The losses, which are incurred due to non-value addition, are illustrated in Table 8 below. The value addition threshold that is expected per stage, is shown in the last column of Table 8. The cumulative loss is estimated at USD 100 million, with regard to the second level of loss, which is associated with non value addition. If the loss associated with pre-, peri- and past-slaughter defects, which is illustrated in Table 8 is taken into account the total loss is estimated at USD 102.7 million per annum.

Table 8: Value Addition Potential and Estimated

| Stage of Processing | Potential Earnings | Current Actual Earnings | Estimated Losses | Value Addition Threshold |
|--------------------------------------|--------------------|-------------------------|------------------|--------------------------|
| Raw hides and Skins Current Value | 8,520,000 | 1,917,000.00 | 6,603,000.00 | 1 |
| Wet Blue | 17,040,000.00 | 0 | 17,040,000.00 | 2 |
| Crust | 25,560,000.00 | 0 | 25,560,000.00 | 3 |
| Finished Leather | 34,080,000.00 | 0 | 34,080,000.00 | 4 |
| Finished Products | 102,240,000.00 | 0 | 102,240,000.00 | 12 |
| Cumulative Loss | | | 100,323,000.00 | |

Source: Computations based on FAO data.

2.4 The Tanning Subsector

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

Malawi has one tannery, which was closed for many years and was only reopened in 2013. The Tannery is producing 100% wet blue for export to China. Currently there are no plans to move to the next stage of value addition. However it is imperative to note that the reopening of the tannery is positive as it has created jobs increased value addition and also established a wide network for hides and skins collections in Malawi.

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

In the production of wet blue, raw hides and skins commands 85%, with the balance shared among chemicals, water, electricity and labour. This scenario highlights the importance of raw hides and skins in the production equation of leather. Thus, rapid hides and skins prices fluctuation and quality have a serious bearing on the profitability and competitiveness in the production of wet blue. A steep increase or decrease in the prices of hides and skins would impact negatively or positively on the cost of production and consequently on the gross margin¹² of tanning operations.

According to FAO (2009)¹³, a gross margin of 25-35% and greater than 45% is considered normal and robust respectively. The Malawian tanning sector is earning an average of 56%

¹² **Gross margin** is the difference between revenue and cost before accounting for certain other costs.

Generally, it is calculated as the selling price of an item, less the cost of goods sold (production or acquisition costs, essentially).

¹³ FAO Agribusiness Handbook (2009)

gross margin, reflecting a very high profitability potential. The Table 9 illustrates the costs breakdown in the production of hides and skins equivalent to 58,000-60,000sqft

Table 9: Tanning Production Function

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

Source: Stakeholders and Experts consultations with COMESA/LLPI

Stakeholders believe that a large proportion of hides and skins, which emanate from slaughter slabs and backyards were traded at uniform price irrespective of grade category. This situation discourages quality improvement among the primary producers and collectors of hides and skins. This acts as a disincentive and given the scenario that hides and skins collectors would under-salt, as a measure of protecting their profit margin, push the quality of hides and skins down. Consequently, this would raise the tanning production cost upwards and thereby squeeze profit margins, as they process poor quality hides and skins.

The Figure 7 and 8 illustrate two important points that the cost of tanning increases as the quality of hides and skins deteriorates. Secondly, there is also a positive correlation between yield and hides and skins quality; as the quality declines the yield also declines. The cost of tanning a kilogram of hides and skins rises from USD0.8 to USD1.6, from first to the fifth grade respectively; consequently the yield declines from 95% to 55% respectively. This pushes up the cost of tanning and consequently reduces the competitiveness of the industry. Therefore, it is imperative that appropriate measures to promote 'quality based on grades' pricing system and quality improvement (extension services) programs are put in place, as a measure of boosting the Malawi tanning industry in aspects related to profitability and competitiveness.

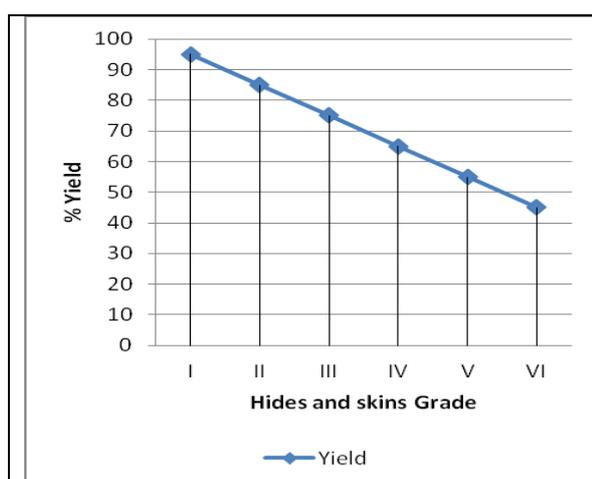


Figure 6: The Relationship between Hides/Skins Grades and Yield

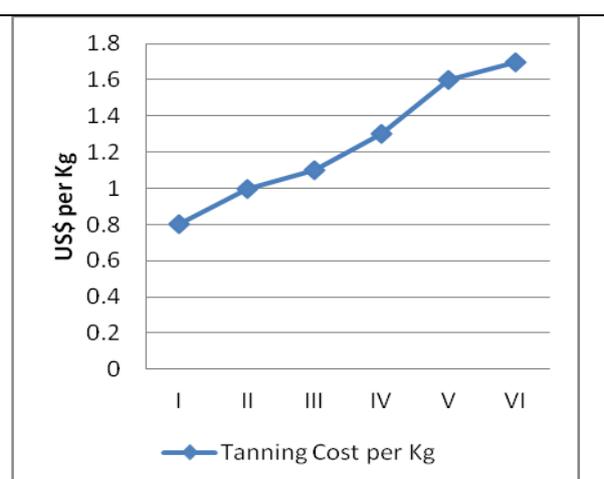


Figure 7: The Relationship between Tanning Cost and Hides and Skins Grade

It is estimated that 70% of hides and skins produced in Malawi are in grades three to five; this implies that the yield range is 45-75%, and the cost of production per kilogram is in the range USD 1.2 to 1.7. Lower yield implies lost resources, processing poor quality hides and skins, whose return in terms of quantity output and monetary return is low. This scenario needs to be reversed as it raises the cost of production, consequently undermining the competitiveness of the value chain. It is, therefore, imperative that measures should be put in place to reverse this scenario.

2.5 Gap Analysis of the Malawi Leather Value Chain

Gap analysis is synonymous with benchmarking; it is an attempt to take the focus outside the Malawi Leather Value Chain, business size category and even outside the country. It leads to the identification of generic insights into the value chain's key drivers of success. The Gap analysis was taken to analyze the Malawi Leather Value Chain vs. Turkey leather value chain. The use of this tool is important in the sense that it assists in building awareness among the Malawi Leather Value Chain stakeholders about the fundamental factors for building competitiveness. Limited knowledge about factors that is driving success of other similar enterprise within or outside the country undermines innovativeness. The Gap analysis findings are presented in the Table 10.

Table 10: Gap Analysis of the Malawi Leather Value Chain

| Critical Success Factors | Importance | Malawi | Matured Footwear Supply chain | GAP | Comment |
|---|--|--------|-------------------------------|------|--|
| Livestock Base | Has a bearing on the potential of hides and skins availability | 1 | 5 | -4 | Malawi's livestock size is far lower than that of Turkey; however it is imperative to note that Thailand is among the top ten global producers of footwear, despite the fact that it has a very negligible livestock base. It therefore implies that the livestock base may be a necessary but not sufficient condition for growing the leather value chain. |
| Off-take Rate | The most important determinant of hides and skins production | 1.5 | 5 | -3.5 | The off-take rate in Malawi is still very low because a number of subsistence farmers consider livestock as status of wealth rather than as a source of revenue. Thus, on average, livestock is disposed usually to deal with a family crisis or culling during drought period. In addition to this the meat consumption per capita is still very low. |
| Animal Husbandry and Extension Service | The state of animal husbandry and extension services has a bearing on the frequency of pre slaughter defects. | 1 | 5 | -4 | Economic Structural Adjustment programmes impacted negatively on extension support that was being offered by Government.. Animal husbandry and veterinary support is now in the hands of the private sector. Turkey has very high standard facilities and support in animal husbandry and extension service. |
| Peri-Slaughter | The skills and handling practices contributes to the absence or presence of cuts, gauges etc. on the hides and skins produced. | 1.0 | 5 | -4 | The high frequency of pre-slaughter defects is mainly attributed to the fact that most of the slaughter is done on contract, thus, the more livestock slaughtered the higher the revenue of slaughter houses owners and the earnings of flayers. In addition, at the point of livestock purchase from farmers, traders do not pay for the fifth quarter, however, they sell it after slaughter. Thus, this is free income to livestock traders, and because their investment in its generation is near zero, not much attention is paid to the hide during flaying. It was however observed that at one slaughter house in Blantyre the quality of hides and skins was outstanding with limited frequency of flay cuts and also the hides were well preserved. |
| Post-Slaughter | The level of preservation techniques, handling and transportation are important in ensuring that hides and skins are delivered the tannery in the desired state. | 2.5 | 5 | -2.5 | This is a major challenge especially to hides and skins produced in the countryside and also in markets. Most of the hides produced are dirty, under-salted, and hair slip was commonly observed on hides and skins which were being offloaded at the tannery in Liwonde. |
| Number of Tanneries, which Produce Finished | This reflects the absorption capacity of the material produced | 0 | 5 | -5 | Turkey has approximately 700 tanneries registered against Malawi's 1. |

| Critical Success Factors | Importance | Malawi | Matured Footwear Supply chain | GAP | Comment |
|------------------------------|--|--------|-------------------------------|-----|---|
| leather | | | | | |
| Finished Leather | It contributes 50% in terms of value to footwear with leather uppers, thus this is the main input. | 0 | 5 | -5 | Malawi exports either wet salted hides and skins and wet blue, there is no production of finished leather. Most of the SMEs depend on informal imports of leather from Kenya and Zambia. |
| Cutting d\Dies | It's a tool, which is used for cutting; it is very important in ensuring speed in cutting and also ensures consistency. | 0 | 5 | -5 | No local production of cutting dices, most of the cutting is done manually |
| Lasts | A last is a mechanical form/mould that has a shape similar to that of a human foot. Without a last footwear manufacturing is next to impossible | 0 | 5 | -5 | No local production of lasts, and they are in short supply |
| Heels/soles | Second important component of a shoe after leather. | 0 | 5 | -5 | No local production, SMEs depend on informal imports from Kenya, Zambia and Zimbabwe |
| Accessories | Important especially for finishing sandals and other types of footwear. (rivets and buckles) | 0 | 5 | -5 | No production of accessories in Malawi and to make it worse the accessories are not readily available in local markets, hence SMEs depend on informal imports from Kenya, Zambia and Zimbabwe. |
| Collaboration | Collaboration and networking amongst value chain is very important in building synergies and promotes joint action, which normally leads to improved competitiveness. | 0 | 5 | -5 | Collaboration among value chain players has broken down completely; the Leather Association is currently dormant. |
| Relationship with Academia | Research, development and incubation are the bedrock of innovation in production development and entrepreneurship. | 0 | 5 | -5 | Nonexistent in Malawi |
| Relationship with Government | Government support with regard to policy, supply and demand aspects is fundamental for industrialization. Most countries have grown at the back of Government policy, financial and procurement support. | 1 | 5 | -4 | Limited relationship from Government and Academia. |
| Access to Finance | Availability of finance with terms, which boosts industrial viability is of paramount importance | 0 | 5 | -5 | This is one of the major constraints in the industry as finance is available at minimum lending rates of 22% plus collateral. The cost of finance is very low and Government has played a significant role in supporting the construction of industrial parks and export economic zones, associated with huge incentives. |

| Critical Success Factors | Importance | Malawi | Matured Footwear Supply chain | GAP | Comment |
|--------------------------|---|--------|-------------------------------|------|---|
| Equipment and Machinery | Improved productivity and quality of products is greatly influenced by the availability of adequate and suitable machinery and equipment | 0.5 | 5 | -4.5 | Most SMEs are using basic, old and rudimentary machinery. |
| Labour Productivity | High labour productivity is very important given the intensity in the use of labour in the footwear supply chain. | 1.5 | 5 | -3.5 | 3 to 5 pairs per person per day, below productivity of 10 plus pairs per day in Turkey. |
| Skilled Manpower | Footwear production is labour intensive, hence there is a need of highly skilled labour force to ensure the production of quality footwear | 2 | 5 | -3 | Limited training; most SMEs have received short training courses from UNIDO and COMESA/LLPI |
| Industrial Collaboration | Industrial association is important in building industrial synergies and also engaging with policy makers. Robust organization improves the enactment of supportive policies and also financial and infrastructural support from Government | 0 | 5 | -5 | The industry in Malawi is operational association, whereas in Turkey there are numerous associations, which are well staffed with experts, whose agenda is to obtain concessions of the industry, consequently improving its bottom line. |
| Total | | 12 | 95 | -83 | |

Source: Stakeholders Consultations by COMESA/LLPI

The Malawi leather value chain performance lags behind that of Turkey by -83 points, which translates to -87.4percent. This is a clear indication that for the Malawi leather value chain to become globally competitive there is a lot of work that needs to be done to assist in closing the identified gaps. Thus strategic interventions should be designed and implemented to deal with the identified gaps.

2.6 Trade Analysis

Malawi participates in the global leather value chain; however its entry point is at its lowest level, i.e. exporting mainly raw hides and skins. In order to understand the performance of the Malawi Leather Value chain, it would have been imperative to include using a battery of indicators such as turnover, employment, value addition thresholds and capacity utilization; however, these indicators are rarely available. Figure 8 illustrates a rapid growth in the export of hides and skins in the period 2002 to 2013, from under half a million in 2002 to reach above US\$1.5 million in 2013. The growth in exports indicates an improvement in the collection and quality of hides and skins produced in Malawi. This development has witnessed the reopening of the Liwonde Tannery, which had been closed for a long time. The reopened tannery is producing and exporting wetblue and has established collection networks across the country. This development is projected to lead to an improvement in export values by more than 50% in the next three years.

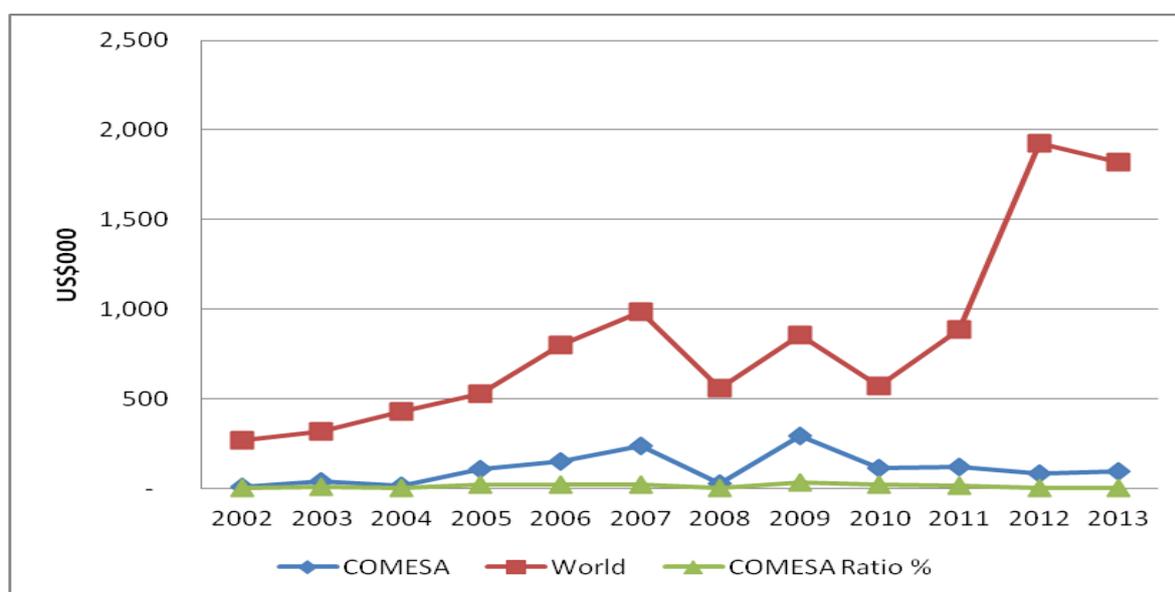


Figure 8: Exports of Raw hides and skins from Malawi

Source: COMESA/LLPI Computations based on ITC Trade Map data

2.6.1 Imports of Footwear

The consumption of footwear is estimated at 11.5 million pairs per annum, based on footwear per capita of 0.85. The limited production of variety and volume of footwear in Malawi has witnessed a growth of footwear in Malawi, from below US\$ 1 million in 2002 to reach approximately US\$ 3.3 million in 2012, before receding to US\$ 2 million due to economic challenges that impacted Malawi in the recent past. It should be noted that this excludes importation of second hand shoes, whose import figures cannot be easily ascertained it is classified in the same HS codes with second hand clothes. Market observation shows that Malawi is one of the leading importers of second hand products in the COMESA region. It contributes 8% to the total import bill of second hand clothes and footwear after Kenya, Uganda and DRC. Figure 9 illustrate the import dynamics of footwear by Malawi in the period 2002 to 2013.

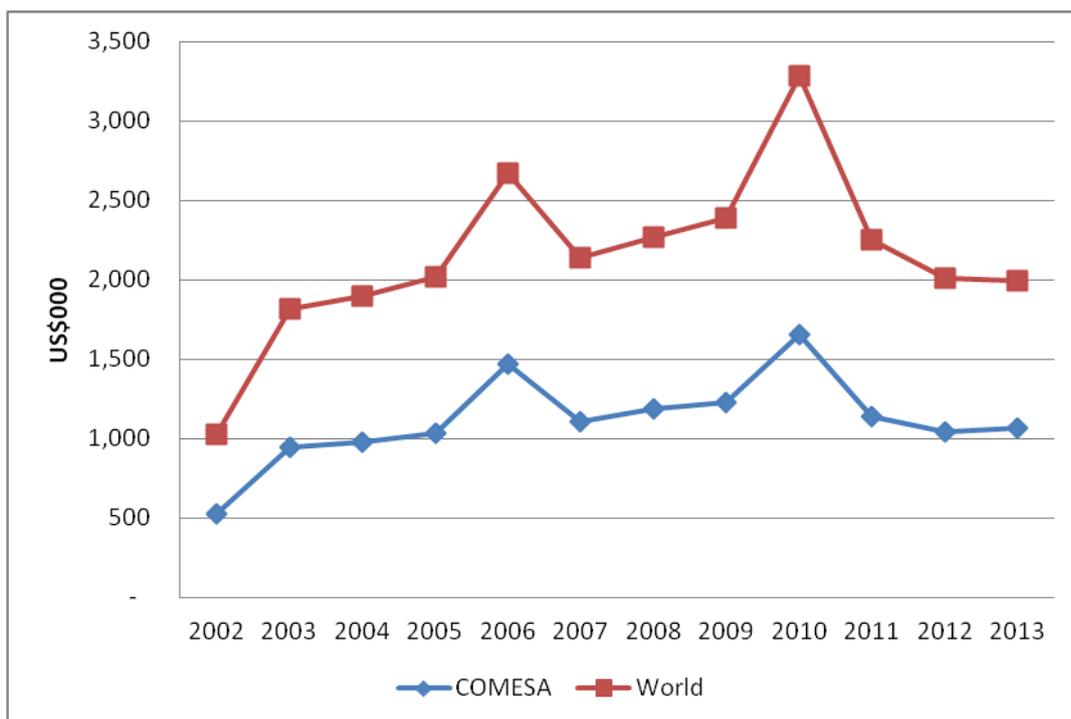


Figure 9: Imports of Footwear

Source: COMESA/LLLPI Computations based on ITC Trade Map data

Support in the development of SMEs Clusters is imperative; as the market for footwear is growing rapidly, this would create employment and also save foreign currency. This is in line with the Buy Malawi campaign and the drive to empower Youths and Women and employment creation.

2.7 Regional Comparative analysis

This section analyses the competitiveness of the Malawi leather value chain through the use of a battery of indicators, which are normally used to gauge trade competitiveness of a value chain. In addition to this, the main trade policy instrument, which is the tariff, is assessed with regard to MFN, COMESA and the East African Community (EAC). In order to present a comprehensive picture, Malawi's scenario is compared with the situation in Egypt, Ethiopia, and, Zambia. The rationale of the comparative analysis would assist Malawi in drawing practical lessons from countries, whose leather value chains are growing rapidly.

2.7.1 Competitiveness Analysis

Exports as a share of Total Exports (%): This index refers to the share of an industry's exports in relation to a country's total exports; hence it shows the importance of this industry in the national export portfolio. Malawi's index for Chapter 41 stood at 0.15. Malawi is below the regional average of 1.5%.

Exports as a share of World Exports (%): This index shows, for a specific industry, the percentage share of exports of the selected country in total world exports. The world market share indicates how important a specific national industry is in terms of global export for the industry under review. The ratios for Malawi stand at 0.01%, below the regional average of 0.1%.

Growth of Export in Value (% PA): This index, based on the least squares method, shows the average annual percentage growth of export values over the most recent 5-year period. Industry, with rapid export growth in value terms, suggests that the country is competitive on

the world markets, while stagnant or declining growth rates indicate the reverse. Everything else being equal, fast growing exports, even in small absolute numbers, point at product groups for which the country has a particular export potential. Malawi's Chapter 41 ratio displays rapid growth, which is above the regional average; this therefore reflects that the value chain holds great potential for Malawi. See details in Table 11 below.

Table 11: Summary of Competitiveness Indicators of Malawi and other COMESA States

| Country | Contribution To total Export (%) | | Contribution To total World Export (%) | | National Growth Rate (%) | |
|--------------------------------------|----------------------------------|------------|--|------------|--------------------------|-------------|
| | 41 | 64 | 41 | 64 | 41 | 64 |
| Chapters in Harmonized System | 41 | 64 | 41 | 64 | 41 | 64 |
| Burundi | 0.38 | 0.03 | 0 | 0 | -41 | 140 |
| Egypt | 0.37 | 0.03 | 0.36 | 0.01 | 24 | 3 |
| Ethiopia | 3.84 | 0.77 | 0.22 | 0.01 | -7 | 8 |
| Kenya | 1.88 | 0.37 | 0.25 | 0.01 | 12 | -21 |
| Rwanda | 2.4 | 1.36 | 0.04 | 0.01 | 40 | 61 |
| Uganda | 1.77 | 0.19 | 0.14 | 0 | 36 | 11 |
| Malawi | 0.15 | 0 | 0.01 | 0 | 20 | 0 |
| Zambia | 0.16 | 0 | 0.03 | 0 | 8 | -62 |
| Zimbabwe | 1.56 | 0.04 | 0.09 | 0 | 30 | -14 |
| Average | 1.4 | 0.3 | 0.1 | 0.0 | 13.6 | 14.0 |

Source: ITC

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

2.7.2 Trade Policy on Hides and Skins

The trade policies on hides and skins export currently obtained in selected regional countries, and the actual impact, which have been registered in the past years are summarized in the Table 12. The export restriction policies based on export tax has generally contributed to the growth of the tanning sector in Ethiopia, Kenya and Uganda, as reflected by the number of new tanneries which were established and also the export values. Stakeholders in Malawi have agreed to introduce export tax on wet blue, as a sanction to encourage more value addition in Malawi. See summary of current policies in the region.

Table 12: Summary of the Policies and Impact

| Country | Nature of Policy | Recorded Impact | General Comment |
|----------|---|--|--|
| Ethiopia | Punitive export tax on raw hides and skins up to crust leather. | The sector has grown significantly, with approximately 28 tanneries operating and a sizeable number of footwear making factories and thousands of SMEs | The implementation of such a policy should be supported by competent institutions and complimented with other support measures. In some of the countries, which have implemented this kind of policy there has been reports of hides and skins being exported through second party countries (smuggling) |
| Kenya | Export tax on raw hides and skins | The industry is showing great recovery from the effects of Economic Structural Adjustment, and exports from the sector has grown from USD10.6 million in 2001 to USD166 million in 2012, dominated by wet blue | |

| Country | Nature of Policy | Recorded Impact | General Comment |
|---------|-----------------------------------|--|---|
| Uganda | Export tax on raw hides and skins | This has seen the number of tanneries rising from one to seven, and export value from USD25 in 2003 million to USD63 million in 2013 | |
| Malawi | | A liberal policy is currently in place, consequently low capacity utilization in the recently reopened tannery. | Malawi needs to consider this policy position given the benefits, which have accrued to other countries listed in this table. |

2.8 Conclusion

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

CHAPTER III: PARTICIPATORY ANALYSIS OF THE VALUE CHAIN

3. Introduction

Broader participation and engagement of key stakeholders, public transparency, and institutional accountability have gained greater importance globally. Lessons learnt are extremely helpful in facilitating the successful implementation of new strategies, policies and business processes. According to the Asian Development Bank (1996) experiences have demonstrated that policies tend to be more effective when there is stakeholder ownership of initiatives and new programs and projects that reflect their needs and views. Participating in formulating the fundamental goals as well as in planning and carrying out an activity empowers stakeholders and fosters a sense of ownership. These facilitate effective project implementation, conscientious monitoring of activities, and sustainable outcomes.

Taking the above into cognizance, the Draft Leather Value Chain Strategy for Malawi was designed through a participatory process. It involved site visits in selected parts of the country, one-to-one meetings, followed by Participatory Stakeholders Workshop, which was held in Lilongwe, Malawi. The Workshop drew participants from the various segments of the value chain, from city and peri-urban areas of Lilongwe and, other districts of Malawi. The stakeholders represented Government Private Sector and Civil Society. The Workshop assisted in generating, moderating, collating and prioritizing of important issues.

This Strategy was designed by blending both qualitative and quantitative data that was generated from primary and secondary sources. The primary sources included one-to-one meetings with SMEs during the baseline survey of SMEs; this was followed with meetings and site visits to slaughter houses and hides and skins traders, tanneries, leather goods and footwear manufacturers.

3.1. Distribution of Workshop Participants

Stakeholders are people, groups or institutions that may be affected by, can significantly influence or are important to the achievement of the stated purpose of a project or strategy. They include Government, Civil Society, and the Private Sector at national, intermediate and local levels. Given the above definition and importance of Stakeholders, the Workshop drew participants from Government, Private Sector and Civil Society/Academia. This is also in line with the COMESA/LLPI thrust of employing the Triple Helix approach in improving the performance of the leather value chain in the COMESA region, as was approved in a Stakeholders Meeting, which was held in July 2014, in Harare Zimbabwe. In addition, the drawing of Stakeholders from across the value chain and the country was aimed at generating a national and balanced view of the issues currently impacting the performance of the leather value chain. Table 13 shows summary of participants.

Table 13: Distribution of Workshop Participants

| Sector | Number of Participants | Percentage Contribution (%) |
|----------------------------|------------------------|-----------------------------|
| Farmers | 2 | 6.1 |
| Butcheries | 1 | 3.0 |
| Livestock Traders | 1 | 3.0 |
| Slaughterhouses | 1 | 3.0 |
| Hides and Skins Collectors | 1 | 3.0 |
| Tanners | 2 | 6.1 |
| Footwear Makers | 5 | 15.2 |
| Leather Goods Makers | 4 | 12.1 |
| Government | 7 | 21.2 |
| Media | 2 | 6.1 |

| Sector | Number of Participants | Percentage Contribution (%) |
|------------------|------------------------|-----------------------------|
| Support Agencies | 7 | 21.2 |
| Total | 33 | 100.0 |

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

All participants during the Workshop made contributions, through the use of meta cards, which were then collated and prioritized through a participatory process. The issues, which were generated during the stakeholders meetings, and also through one to one meetings with enterprises, are summarized in a SWOT analysis in Table 14, in form of a SWOT analysis. The Workshop participants validated and also prioritized these issues, and agreed that strategic interventions. Thus, the strategic intervention should seek to strengthen the **S**trengths, deal with the **W**eaknesses, capitalize on the **O**pportunities and tackle the **T**hreats.

Table 14: SWOT Analysis of the Malawi Leather Value Chain

| STAGES | STRENGTHS | WEAKNESSES | OPPORTUNITIES | THREATS |
|-----------------------------------|--|---|--|---|
| CROSS-CUTTING | <ul style="list-style-type: none"> • Government commitment; • Available raw hides and skins; • Political stability | <ul style="list-style-type: none"> • Limited access to suitable finance; • High cost of finance in comparison to rate of return in the industry • Limited or lack of collaboration of chain players • Limited support or collaboration with Academia, Private, Civil Society and Government • Weak information systems • No organized Sector Association | <ul style="list-style-type: none"> • Large scope for value addition • Growing domestic, regional and international market for value added products • Renewed interest by Government to support the sector • Large pool of trainable work force | <ul style="list-style-type: none"> • Global Economic Slow down • Synthetic materials • Influx of second hand leather products |
| HIDES AND SKINS PRODUCTION | <ul style="list-style-type: none"> • Growing and diversified livestock base • Growing demand for meat, increasing the slaughter rates | <ul style="list-style-type: none"> • Weak or inadequate extension support • Poor handling of live animals; • Weak animal husbandry system • Poor slaughter facilities • Poor flaying and conservation techniques; • Poor quality of hides and skins • No or inadequate collaboration as there is no Association for Livestock Traders, Butcheries and Hides, leather association and Skins Collectors; • Absence of a structured system to support the production of quality hides and skins; • Uniform price on hides and skins irrespective of grade | <ul style="list-style-type: none"> • Reopening of Liwonde tannery; • Renewable resource • Readily available markets | <ul style="list-style-type: none"> • Contagious diseases & parasites • Hides and skins being smuggled to neighboring countries |
| TANNERIES | <ul style="list-style-type: none"> • Available Production Capacity to produce upto wet blue • Available work force • Adequate installed capacity for the production of wet blue | <ul style="list-style-type: none"> • Inadequate technology, technical and production management skills; • Dependent on the importation of the bulk of the chemicals; • Poor environmental control; • Narrow product distribution channels • Limited or no interest to produce finished leather; • Absence of Government policy support to promote production of finished leather; • Small market size for finished leather in Malawi; | <ul style="list-style-type: none"> • Growing domestic and regional demand for finished leather • Policy and legal support • Room for improvement; • High value addition opportunities from wet blue to finished leather • Growing international demand of leather products; • Renewed regional and international interest to support the industry • Government interest to develop a sector specific policy | <ul style="list-style-type: none"> • Increased competition from synthetic and imported products; • International markets view Malawi as a raw material supplier rather than finished leather; • Poor working standards, which are contra international labour standards in some of the tanneries • Growing market demand for footwear • Production of by- products |

| STAGES | STRENGTHS | WEAKNESSES | OPPORTUNITIES | THREATS |
|-----------------------------|--|---|--|---|
| MANUFACTURING | <ul style="list-style-type: none"> • Large pool of trainable human resource; • Large pool of SMEs, who are involved in the production of footwear and leather goods. | <ul style="list-style-type: none"> • Inadequate machinery and equipment • Limited availability of quality finished leather and accessories; • High cost of finance • Inadequate technical training facilities; • Limited collaboration with upstream and downstream chain players • Absence of a specific policy support • Absence or lack of qualified footwear and leather goods designers; • COMESA Simplified Regime List does not include critical inputs such as finished leather and other accessories, which are not produced in Malawi; however they are produced in some of the COMESA Member States. | <ul style="list-style-type: none"> • Growing domestic and regional demand for finished leather • A big and growing market deficit for footwear; • The industry is still in infancy hence there is great potential for expansion; • Renewed interest to support the development of leather cluster regionally and internationally; • Government interest to develop a sector specific policy; • Potential Government procurement for military, policies and other Government institutions | <ul style="list-style-type: none"> • Intense competition from cheaper imports from Far East; |
| SUPPORT INSTITUTIONS | | <ul style="list-style-type: none"> • Under-equipped Technical Training Centres • Limited interaction with Standards Boards; • Limited support and interaction with Academia; • No advanced specialized courses to support the leather value chain | <ul style="list-style-type: none"> • Renewed interest by Academic institutions to work with the sector | |

3.3. Conclusion and Emerging Priority Intervention Areas

The quantitative and qualitative analysis in Chapter II and in this Chapter reveals the key issues that must be addressed by this Strategy to ensure the optimization towards value addition of raw hides and skins being produced in Malawi. The following are the main issues, which were identified during the Stakeholders Workshop and through the quantitative analysis of data:

- Lack or no collaboration among value chain players;
- Limited availability of finished leather and other accessories for footwear and leather goods manufacturing;
- Limited or no support from Government, Academia and other International NGOs to support the development of the sector;
- Shortage of technical and managerial skills among the SMEs;
- Absence of Technical Institutions supporting the development of the leather value chain;
- Production of poor quality hides and skins;
- Limited access to suitable capitalization and working capital finance;
- Limited availability of suitable machinery and tools;
- Absence of hides and skins production, preservation and grading standards; and
- Dependence of SMEs on informal imports.

The above emerging issues contributed to the formulation of strategic objectives that are presented in the following Chapter. These objectives are aimed at addressing the core issues impacting negatively on the performance of the leather value chain in Malawi.

CHAPTER IV: STRATEGY

4. 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 Malawi's leather value chain from the production and export of raw hides and skins and partly processed products to the production and export of value added products such as finished leather, footwear and leather garments.

4.1. Vision and Mission

VISION

To be among the top ten subsectors in Malawi with regard to contribution to GDP and Trade by 2025.

MISSION

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

4.2. Strategic Market and Growth Goals

In accordance with the Vision and Mission of the Strategy, the Stakeholders identified specific target markets for selected products. The overall market direction shifts the focus of the Leather Subsector towards the production of value-added leather products, such as crust, finished leather, footwear and leather goods, for the domestic and export markets. The ultimate objective is to foster the production and export of value added products so as to promote job creation, income and foreign exchange generation and economic growth. At full potential the sector has the capacity to generate US\$102 million, 3,500 direct jobs and contribute 3.9% to GDP. See the products and market targets illustrated in Table 15.

Table 15: Target Market Growth

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

In order to improve accountability, it is important to introduce quantifiable indicators, which would be used as benchmarks in assessing the impact of implementing the Strategy. The growth targets which were discussed during the Stakeholders Consultation Workshop are summarized in Table 16 and the growth targets for each product category are set.

Table 16: Growth Strategic Targets

| Product Description | Growth Targets | | |
|---------------------|---|---|---|
| | 2015-2018 | 2019-2022 | 2023-2024 |
| Raw Hides and Skins | No export of raw hides and skins, except rejects for gelatin | No export of raw hides and skins, except rejects for gelatin | No export of raw hides and skins, except rejects for gelatin |
| Wet blue | 85% of hides and skins produced in Malawi are converted into wet blue | 95% of hides and skins produced in Malawi are converted into wet blue | 95% of hides and skins produced in Malawi are converted into wet blue |
| Crust leather | 50% of the total hides and skins exported as crust | 100% of the total hides and skins exported as crust on cumulative basis | 90-100% crust retained at domestic level for support of finished leather |
| Finished leather | 25% of total converted into finished leather for domestic production | 50% of total converted into finished leather for domestic production | 95% of finished leather availed to support leather products development for domestic and export markets |
| Footwear | Increase output by 400,000 pairs per annum | Increase by 50% based on the 2014-17 | Increase by 50% based on 2018-21 figures. |
| Leather goods | Increase output value by 25% | Increase output value by 50% based on the 2014-17 | Increase output value by 75% based on 2018-21 figure |

4.3. Strategy Objectives and Sub objectives

The specific objectives and interventions listed in the Table 15 elaborate the proposed mechanisms of addressing the issues identified by stakeholders and also drawn from the quantitative analysis. Sub objectives are listed under each specific objective. The implementation of such interventions would contribute towards the attainment of the main thrust of this strategy, which is to promote the production and trade of value added products, namely, finished leather, footwear and leather goods. The Strategy’s objectives and the rationale of selecting the given objectives are (or were) summarized in the Table 17.

Table 17: The Rationale for the Selected Objectives

| Objectives | Rationale based on Emerging Issues Summarized in Chapter III |
|---|--|
| To facilitate increased production of quality hides and skins for improved contribution of the sector to national development goals | <p>This objective is based on the fact that increased production of quality hides and skins and value addition would enhance income earnings, employment creation and poverty alleviation. In addition, it responds to the following issues summarized in Chapter III:</p> <ul style="list-style-type: none"> • The quality of hides and skins being produced in Malawi is deteriorating; • Continuous export of wet blue was costing the country in terms of forgone revenue earnings • Lack of technically qualified extension staff to assist in livestock production • Value addition at the farmer level will entail implementing techniques that reduce the cost of farming. |
| To Capacitate SMEs/ cottage industries for higher end value addition and competitiveness in domestic, regional and | SMEs in Malawi depend on informal imports of all materials and they also use rudimentary tools. Thus they face many challenges, an economic mechanism to address the problems these SMEs are facing is to establish clusters. |

| Objectives | Rationale based on Emerging Issues Summarized in Chapter III |
|--|--|
| international markets | |
| To promote quality and cleaner environmental sustainable production techniques and systems | The leather value chain has been known to produce hazardous waste, thus it is fundamental that efficient and environmentally sustainable production techniques are promoted, as this is necessary to boost competitiveness, open new market opportunities and save the environment. |
| To facilitate horizontal and vertical collaboration of chain players and other relevant stakeholders | <p>Collaboration is essential in enabling optimization in resource use and dealing with emerging challenges systematically and coherently. In addition it responds to the following specific issues:</p> <ul style="list-style-type: none"> • Lack or inadequate horizontal and vertical collaboration among Value Chain Agents, was undermining the optimization of the available resources; • Limited collaboration of value chain agents with external stakeholders such as academia, quality and standards development organizations, financial institutions and development partners among others, was undermining growth of the sector • Cross cutting issues have a bearing on the creation of an enabling business environment. |

4.3.1. 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 create outcomes that would in turn contribute to the attainment of this Strategy's Vision and this will be manifested through measurable indicators specified under Strategic Market and Growth Goals. The specific activities would be crafted as part of the annual work plan by the coordinating Ministry in consultation with the relevant Stakeholders.

Objective 1: To Facilitate Increased Production of Quality Hides and Skins for Improved Contribution of the Sector to National Development Goals

Under Objective 1, issues pertaining to hides and skins improvements are addressed; this is mainly because quality of raw materials is essential for the cost effective production of quality value added products. This objective focuses on enhancing capacity at primary producer, slaughter houses and preservation/storage levels of the leather value chain in order to get hides and skins readily available for value addition in large quantity and better quality. The specific sub-objectives and expected outcomes, which would contribute to the attainment of the above objective, are listed in Table 18.

Table 18: Objective 1 Strategic Activities

| Objective 1: To facilitate increased production of quality hides and skins for improved contribution of the sector to national development goals | | | |
|--|---|--|--|
| Sub-objective and Activities | Expected Output/Outcome | Stakeholders | |
| Facilitate the development of improved husbandry practices | <ul style="list-style-type: none"> • Mortality of animals due to different reasons decreased by 50% • Pre-slaughter defects incidence reduced by 75%; | Ministry of Agriculture and Livestock Production, Development partners | |
| Facilitate the development of an efficient Hides and Skins | <ul style="list-style-type: none"> • Peri-slaughter defects incidence reduced by 75%; • Non collected hides and skins | Line Ministry COMESA/LLPI, UNIDO, FAO, | |

| Objective 1: To facilitate increased production of quality hides and skins for improved contribution of the sector to national development goals | | | |
|---|--|--|--|
| Sub-objective and Activities | Expected Output/Outcome | Stakeholders | |
| production, system | percentage decreased by 50% | | |
| Facilitate the development of an efficient Hides and Skins preservation storage and transport | Post-slaughter defects incidence reduced by 75% Loss of hides and skins before reaching tannery reduced by 50% | Line Ministries COMESA/LLPI, UNIDO, FAO, Malawi Bureau of Standards, Small & Medium Enterprises Development Institute (SMEDI), Development Partners, National Association of SME | |
| Facilitate the production of semi and finished leather, which meet international quality and environmental standards | <ul style="list-style-type: none"> 85% of hides and skins produced in Malawi are converted into wet blue by 2018; 100% of the total hides and skins exported as crust leather by 2022 100% of total converted into finished leather for domestic and export markets by 2025 100% are ISO certified for meeting international quality and environmental standards by 2025 | Line Ministries, COMESA/LLPI, UNIDO, FAO, Bureau of Standards, , , Malawi Chamber of Commerce and Industry, Small & Medium Enterprises Development Institute (SMEDI), Development Partners, National Association of SME | |
| Remuneration of herdsmen/farmers for sourcing higher quality hides | <ul style="list-style-type: none"> Animal with less or no integument problems | Farmers Extension staff | |

Objective 2: To facilitate Resource Mobilization and Policy Support for the Growth of the Value Chain

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

Table 19: Objective 2 Strategic Activities

| Objective 2: To Capacitate SMEs/ cottage industries for higher end value addition and competitiveness in domestic, regional and international markets | | | |
|--|---|---|--|
| Sub-objective and Activities | Expected Output/Outcome | Stakeholders | |
| Creation of knowledgeable workers with basic employable skills according to a recognized functional map and skills standards. | Skilled employees | Specialized institutions in leather sector, Small & Medium Enterprises Development Institute (SMEDI), Development Partners, National Association of SME | |
| Improve machinery situation | Some machines made available for common use | UNIDO, COMESA/LLPI, | |

| Objective 2: To Capacitate SMEs/ cottage industries for higher end value addition and competitiveness in domestic, regional and international markets | | | |
|--|--|--|--|
| Sub-objective and Activities | Expected Output/Outcome | Stakeholders | |
| | | SME Cluster, Small & Medium Enterprises Development Institute (SMEDI), Development Partners, National Association of SME | |
| An operating, user friendly mechanism needs to be created for the dissemination of fashion and market information | Fashion and other market information made accessible to SMEs | Specialized unit under Ministry of Trade NGOs COMESA/LLPI, Small & Medium Enterprises Development Institute (SMEDI), Development Partners, National Association of SME | |
| Conduct sector financial needs assessment for the leather sector, support industries and regulatory institutions in the region | Report completed and disseminated by mid 2015 | Line Ministries, FAO, UNIDO, COMESA/LLPI, Academia, Malawi Standards Authority, Financial Institutions and other stakeholders, Small & Medium Enterprises Development Institute (SMEDI), Development Partners, National Association of SME | |
| Creation of educated generation of workers with basic employable skills according to a recognized functional map and skills standards. | Division of labour induced higher productivity | | |
| Facilitate the organization of SMEs in to clusters | <ul style="list-style-type: none"> • 4 Clusters of 50 SMEs each established by 2015; • 4 Cluster of 50 SMEs facilitated to procure joint or have access to joint machinery under one roof by 2018; • Strategic linkages between clusters and support Institutions established; • international quality and environmental standards by 2025 • more than 50 % of back to school shoes are produced in Malawi by 2025; • 75% of Police and Military footwear requirements are produced in Malawi; <p>Export of footwear increased</p> | Line Ministries, COMESA/LLPI, UNIDO, FAO, Malawi Bureau of Standards, , Malawi Chamber of Commerce and Industry, Secondary and Primary Schools, Ministry of Education, Ministry of Defense and Home Affairs, Small & Medium Enterprises Development Institute (SMEDI), Development Partners, National Association of SME | |

| Objective 2: To Capacitate SMEs/ cottage industries for higher end value addition and competitiveness in domestic, regional and international markets | | | |
|--|--|---|--|
| Sub-objective and Activities | Expected Output/Outcome | Stakeholders | |
| | by 25% into the regional and international markets by 2025 | | |
| Ensure efficient institutional infrastructure that serves its members | Specialized institute with necessary facilities set | Ministry of Industry and Trade, UNIDO, COMESA/LLPI, Other Development partners, Small & Medium Enterprises Development Institute (SMEDI), Development Partners, National Association of SME | |
| Design suitable financial instruments in consultations with national, regional and international development banks | Instruments designed and implemented by 2015 | Government, National Bank, Small & Medium Enterprises Development Institute (SMEDI), Development Partners, National Association of SME | |
| Mobilize funding from national, regional and international finance corporations and also from Government | Amount raised | Government, Ministry of Industry, Trade, Development partners, Small & Medium Enterprises Development Institute (SMEDI), Development Partners, National Association of SME | |
| Build the capacity of value chain actors including support industries and regulatory authorities on modalities of accessing finance | 1,000 enterprises trained by end of 2025 | Ministry of Industry, trade, UNIDO, COMESA/LLPI, Small & Medium Enterprises Development Institute (SMEDI), Development Partners, National Association of SME | |
| Design a system for monitoring and usage of the mobilized resources, to ensure resource optimization | System Developed and implemented by 2015 | Specialized Institution set to support the Leather Industry, Small & Medium Enterprises Development Institute (SMEDI), Development Partners, National Association of SME | |
| Develop policies aimed at promoting value addition in the leather value chain | Policies developed and implemented by 2015 | Government, (legislative, regulatory), Small & Medium Enterprises Development Institute (SMEDI), Development Partners, National Association of SME | |

Objective 3: To promote Cleaner and Environmentally Sustainable Production Techniques and Systems

The leather value chain has gained negative publicity across the globe because of the utilization of technologies, which have resulted in environmental pollution and damage. This is mainly because of the use of salt and chemicals in the preservation and leather production respectively. It is imperative to note that technological advancement has led to the generation of the development of clear technologies and also a significant improvement in

waste management. Despite progress in this vein, it should be noted that most production systems in developing countries, including Malawi have not fully internalized these technologies. The usage of cleaner and environmentally friendly technologies, besides protecting the environment, is also an important marketing tool. This Objective thus focuses in ensuring that all enterprises involved in the leather value chain embraces leaner and environmentally friendly production technologies. The specific Sub-objectives, which would contribute to the attainment of the above objective, are summarized in Table 20:

Table 20: Objective 3 Strategic Activities

| Objective 3: To Promote Cleaner and Environmental Sustainable Production Techniques and Systems | | | |
|--|---|--|--|
| | Expected Output | Stakeholders | |
| Undertake an audit or gap analysis in the technologies being used in Malawi vs. those being used in modern production facilities globally; | <ul style="list-style-type: none"> • Audit completed by end of 2015 • Audit report disseminated by end of 2015 • Audit recommendation implemented by end of 2022 | Line Ministries, FAO, UNIDO, COMESA/LLLPI, Malawi Bureau of Standards, Academia, Industry, Finance Institution and other stakeholders; Ministry of Mines and energy, Small & Medium Enterprises Development Institute (SMEDI), Development Partners, National Association of SME | |
| Work in collaboration with the value chain players to design a programme for closing the identified gaps; | Program designed and implemented by 2022 | | |
| Mobilize resources to facilitate the deployment of cleaner and environmental friendly production techniques; | Resource mobilization program designed and implemented by 2022 | | |
| Design a monitoring system of the implementation of the cleaner production programme | System designed and implemented by 2015 | | |

Objective 4: To facilitate Horizontal and Vertical Collaboration of Chain Players and other Relevant Stakeholders

The cluster theory recognizes that the cause of underperformance among enterprises maybe attributed to the isolation phenomenon, which is common in most developing countries, Malawi included. Thus horizontal and vertical collaboration is essential in addressing common problems optimally, by sharing the costs associated with it. Collaboration can be used to deal with both supply and demand constraints, which are usually difficult to deal with in isolation. Engagement with stakeholders such as Academia, Development Partners, Financial Institutions, Technical and Service Providers in a systematic manner is critical. This enables the sector to reap from economies of scale of collective action. The Sub objectives, which would contribute to such an attainment, are articulated in Table 21.

Table 21: Objective 4 Strategic Activities

| Objective 4: To facilitate horizontal and vertical collaboration of chain players and other relevant stakeholders | | | |
|--|---|---|--|
| Sub-objective and Activities | Expected Output | Stakeholders | |
| Activities | | | |
| Identify and develop an inventory of agents at every segment of the leather value chain; | <ul style="list-style-type: none"> • The inventory is disseminated by mid 2015; • Inventory continuously update with time | Line Ministries, Malawi Bureau of Standards, Academia, Industry, Finance Institutions and | |

| Objective 4: To facilitate horizontal and vertical collaboration of chain players and other relevant stakeholders | | | |
|---|--|--|--|
| Sub-objective and Activities | Expected Output | Stakeholders | |
| Facilitate the formation of associations at every state of the value chain; | Association established and legally registered by end of 2015 | other stakeholders, Small & Medium Enterprises Development Institute (SMEDI), Development Partners, National Association of SME | |
| Facilitate vertical collaboration by forming an Apex Council of the leather value chain; | Apex Council established and officially registered by 2016 | | |
| Identify external stakeholders and formulate mechanism of working with them. | <ul style="list-style-type: none"> Stakeholders inventory designed and methodologies for working with them developed and implemented by 2015 Inventory continuously update with time | | |
| Facilitate the formation of cluster among the value chain players | 4 Cluster of 50 SMEs each established across Malawi | | |

4.4. Implementation Methodology

The Strategy Implementation is envisaged to be coordinated by the Ministry of Industry and Trade with the entire relevant stakeholders. It is important to note that the Public Private Sector collaboration is central in delivering this Strategy. Thus, an interim Committee of Private Sector, Government and Academia should be established first to drive the implementation of this Strategy. This Committee should come up with a detailed annual work programme drawn from the key activities highlighted in the strategy earlier on in Tables 16 to 19. The implementation approach is presented in Figure 10.

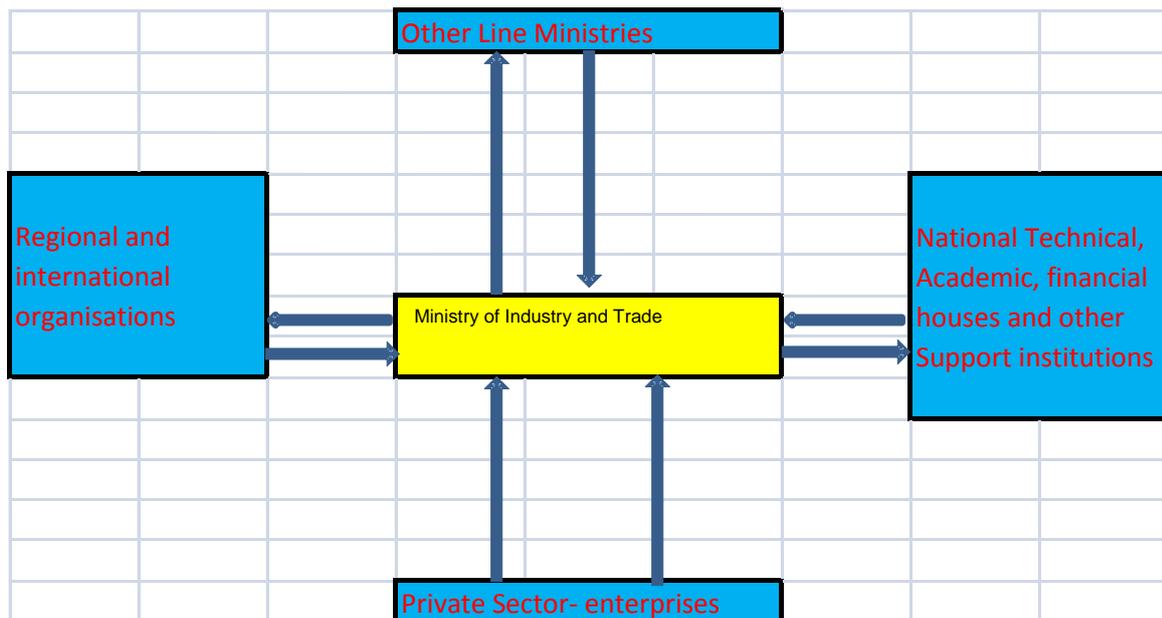


Figure 10: Strategy Implementation and Coordination Structure