



**COMESA/LLPI IN COLLABORATION WITH AMTS/AMSCO
BASELINE SURVEY ON THE DEVELOPMENT OF THE
FOOTWEAR CLUSTERS THROUGH THE
REORGANISATION OF EXISTING SERVICE CENTRES AND
THE CREATION OF INCUBATION FACILITIES IN FIVE
COMESA COUNTRIES**

**FEBRUARY 2014 STUDY EXECUTED BY COMESA/LLPI
WITH FUNDING FROM ATMS**

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LIST OF ABBREVIATIONS

AMSCO:	African Management Services Company
ATMS:	African Training and Management Services
COMESA:	Common Market for Eastern and Southern Africa
LLPI:	Leather and Leather Products Institute
MSME:	Micro, Small to Medium Enterprises
SME:	Small and Medium Enterprises
TPCSI:	Training and Production Centre for Shoe Industry Thika
TCFC:	Training Common Facility Centre
LIZ:	Leather Institute of Zimbabwe
MTAC:	Ministry of Trade and Commerce

EXECUTIVE SUMMARY

The study was undertaken in response to a proposal submitted by COMESA/LLPI to African Management Services Company/African Training and Management Services (AMSCO/ATMS) to fund the development of Service Centres for the development of Footwear Clusters in five COMESA countries. The two parties agreed that it was important that a baseline survey be undertaken in order to build empirical based body of evidence with regard to the status of the SMEs involved in footwear production and also the Service Centres operating in Burundi, Kenya, Rwanda, Uganda and Zimbabwe. The baseline survey, which was carried-out in February 2014, evaluated the current status of the Service Centres, identified and analyzed the constraints faced by SMEs; quality of the footwear produced, productivity levels; and the total number of people employed by the MSMEs. The survey embraced a three dimensional approach by assessing technical, social and economic issues, relating to the SMEs producing footwear and the existing Service Centres.

The findings of the baseline survey were as follows, that:

- The COMESA region holds 20% of the World's livestock, however its importance in the leather value chain stands at 2% because of low value addition capacity across the region;
- The Region's footwear market stands at 365 million pairs per annum, and there is a deficit of 218 million pairs by 2012, despite the upsurge in imports mainly from China, which now commands 97% of the footwear exported to the region;
- The market deficit of 218 million pairs is a clear indicator of the business opportunity which exist for SMEs;
- The SMEs have the potential to grow, however their performance is constrained by a plethora of factors, which include lack of access to finance, inadequate machinery, absence of technical and institutional support, unstable supply of raw materials and dependence on informal market for selling their products;
- The Service Centres currently operating in the five countries have varied capacity in term of equipment availability and personnel;
- It was observed that the five Service Centres differ significantly from the Model Service Centre, which are operating in Europe;
- Kenya Centres is the best equipped followed by Masaka (Rwanda) and the least is Kamenge in Burundi;
- Thus the capital investment in the five Centres would be based on the identified needs, rather than a one size fits it all;

The proposed intervention model, which seeks to cluster the SMEs and operate, using facilities at the Service Centres, backed with a revolving fund, technical support

in production and linking with suppliers and the market, was appraised. The results of the appraisal showed that the economic and social impact would be enormous, as the income earning would grow threefold over 3 project years and approximately 1000 jobs created in the same period. In addition, it was found that the introduction of a service charge and also the joint procurement of raw materials, would generate a substantial amount of money that would make the intervention financially sustainable beyond the project cycle.

ACKNOWLEDGEMENT

We would like to acknowledge the role which was played the Secretary General of the Common Market for Eastern and Southern Africa M Sindiso Ngwenya, by developing a strategic link between COMESA/LLPI and AMSCO/ATMS. This was based on an MOU which was signed between COMESA and AMSCO. In addition we would like to thank the professionalism which was shown by AMSCO/ATMS in responding to the proposal, which was submitted to them by COMESA/LLPI. The funding, which was availed by AMSCO/ATMS, made it possible for this baseline survey to be undertaken successfully.

We also wish to acknowledge the leadership (Dr. M. Mwinyihija- Executive Director) at COMESA/LLPI who availed the experts (Prof Mekonon and Mr. N. Mudungwe) to work with Mr. A. Martinelli, an international expert in the development of service centres and the leather value chain.

Finally we would like to thank the SMEs who participated in this study, for their selfless interest in responding to our questions, national Governments of Burundi, Kenya, Rwanda, Uganda and Zimbabwe, and above all the Almighty our LORD GOD.

METHODOLOGY

The baseline study was conducted in five COMESA countries, namely Burundi, Kenya, Rwanda, Uganda and Zimbabwe.

Sampling procedure

Purposive sampling was used to select the countries and SMEs. Reasons for choosing this methodology was to optimize and target high potential countries and operational SMES. The unit of study was SME whereby the owner and head of the SMEs were interviewed. Table 1 below shows the study participants distribution by country. A total of 76 SMEs and key respondents volunteered to participate in the present study.

Table 1: SMEs interviewed by Country

Country	No. of Respondents	Percent
Burundi	9	11.8
Kenya	14	18.4
Rwanda	10	13.2
Uganda	14	18.4
Zimbabwe	29	38.1
Total	76	100

Data collection:

Data were collected through semi-structured questionnaire interview supported with visits to SMEs' production units, and gathering information from key informants. The SMEs' manufactured footwear and other leather products were pictured during the visits. The questionnaire was closed type for its major part and administered by the same interviewer in all the five countries for purposes of consistency. The targeted respective heads of the SMEs were selected as the core participants due to their roles as decision makers on the production and sale of the footwear and leather goods. The appraisal of the production unit visited was conducted simultaneously with the questionnaire interview. Variables inspected during the visit were the SME manufactured products, tools and machineries used for shoe making and work environment. During the site visits an inventory of machines and available skills were taken

Data analysis

Quantitative data was coded and entered using Microsoft Excel computer program and analyzed. Descriptive statistics were run to give means and frequencies. Tables and bar charts were used to present trends of some of the results. Qualitative data was derived from direct observations and key informants to enrich on the deduction of the study and provided a comparative basis to quantitative data summaries.

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CHAPTER 1 : CONTEXT SETTING

Introduction

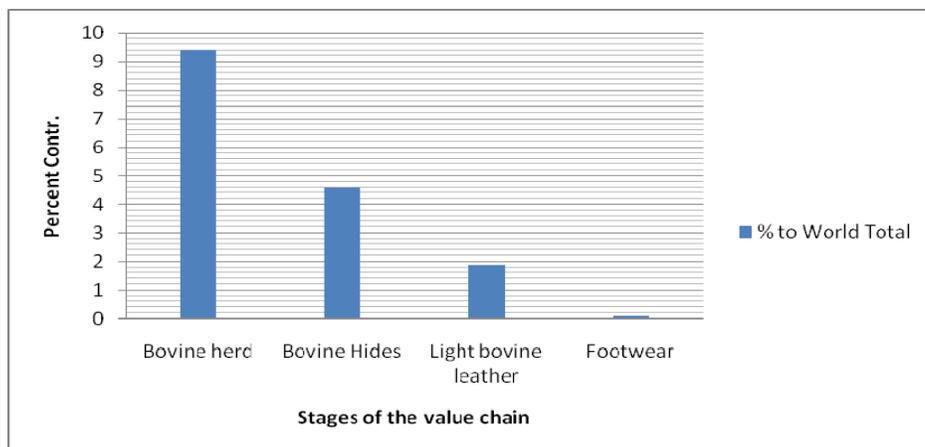
The COMESA region's manufacturing base is weak, as most of the raw materials ranging from minerals to agro commodities are exported in their raw stage, this has thus created a dilemma for Micro, Small to Medium and Enterprises (MSMEs) who are working in manufacturing products such as footwear, leather goods, garments and other steel works, as there is an acute shortage of intermediate inputs such as finished leather, fabric and steel. Despite the adequate supplies of the main inputs these, face a plethora of other constraints, which range from limited access to finance, inadequate policy and technical support, inadequate skills and machinery, among others.

This baseline survey targets a group of MSMEs, which are involved in the manufacturing of footwear. Its seeks to understand their challenges and asses how the establishment of Hybrid centres, which brings the Service Centre concept and the Incubation concept together.

This chapter, gives a brief outline of the potential in the leather value chain and business opportunity, which exist for MSMEs in the COMESA region. It also introduces the footwear supply chain, highlighting the key stages, inputs and components, which are critical for enhancing growth in footwear industry.

Potential of the Leather Value Chain in the COMESA Region

The COMESA region made up of 19 African countries, holds approximately 21% and 51% of livestock globally and in Africa respectively; however its contribution to the global leather value chain is very weak, standing at approximately 2%. This is attributed mainly to a number of factors ranging from pre, peri and post slaughter aspects and limited or no value addition to hides and skins produced in the region. The figure below illustrates, the inverse relationship between the importance of COMESA region in the global value chain, as it progresses upstream. Note the illustration below relates only to bovine animals and bovine leather, related lighter leather and footwear. It is however important to note that the situation illustrated below differs insignificantly with other type of skins and value added products.



Source: Own Computation based on FAO data

The limited importance of COMESA in producing value added products, has costed the region immensely, as the exported raw hides and skins, have assisted in generating income and jobs in other countries and continents. Thusly it is imperative that drastic measures should be taken to transform this industry in COMESA region; already there are noticeable improvements in the past 10 years in Ethiopia. The fact that Ethiopia has made strides, is a clear demonstration that some of the COMESA Member States and including other African countries can draw practical lessons.

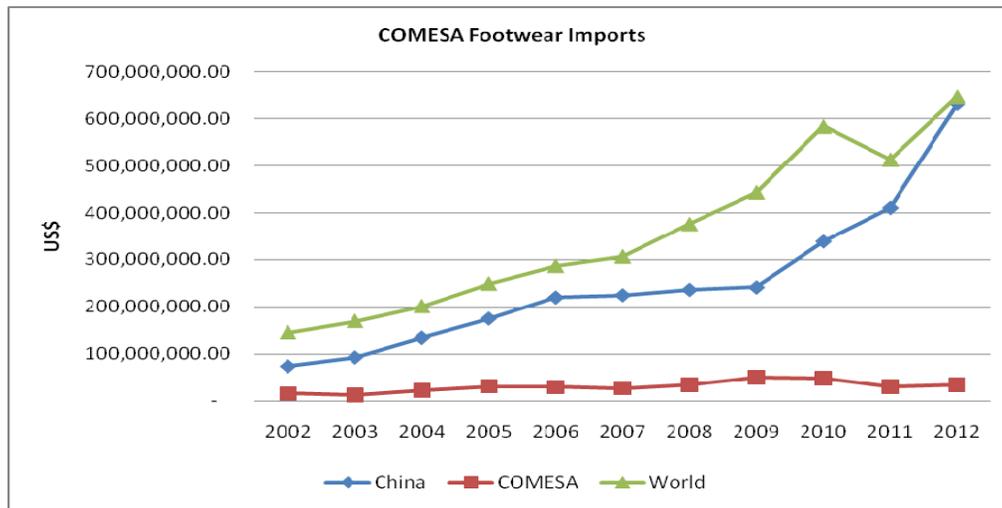
Market Size of Footwear in the COMESA Region

The COMESA region's market size of footwear is estimated at 365 million pairs of shoes per annum, based on the estimated footwear per capita of 0.85. Assuming all these pairs of shoes are produced in the COMESA region, approximately 365,000 shop level jobs would be created, which would trigger demand in the finished leather, soles, glues and other accessories consequently creating more indirect jobs. Total output of leather footwear in the COMESA region was estimated¹ at 80.6 and 92.3 million pairs in 2001 and 2011¹ respectively. However these figures are based on data collected from established enterprises. Based on these figures the region has footwear demand gap of approximately 273 million, which has to be taken by imports. This could explain the reason why imports have grown astronomically from USD 145 million to USD 646 million in the period 2002 to 2012.

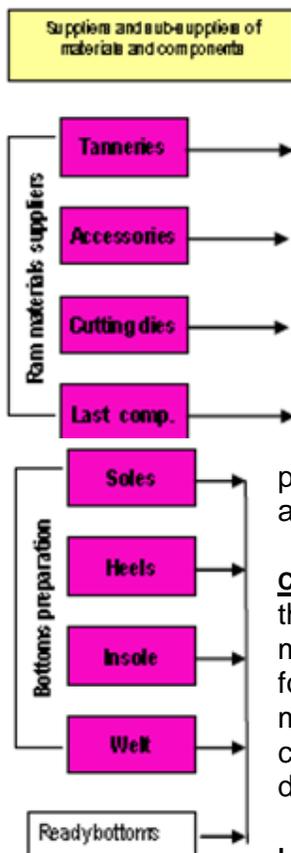
In 2012, US\$ 646 million worth of shoes were imported into the COMESA region from the rest of the world and this translates² to approximately 64 million pairs of shoes. The total market demand is 365 million pairs against a supply of 156 million pairs (imports plus regional production). With an estimated shortfall of 209 million pairs, which is not satisfied per annum. This is a clear indicator that SMEs have a big room to enter the market, with minimal competition from locally established firms and also from imports. The figure below illustrates the sharp growth in footwear imports from the rest of the world, as opposed to slow or almost stagnant growth in intra trade imports in the COMESA region. China's contribution to COMESA's footwear imports bill rose from US\$ 73 million to US\$ 630 million dollars in 2002 and 2012 respectively. Its relative importance in the COMESA market has grown from contributing 50% to 97% of the COMESA footwear import bill in the same period. On the contrary intra trade in footwear in the COMESA region, has retreated from 10.7% to 5.3%. The impact of China in the COMESA market is visible, however many SMEs and consumers rate the quality and durability of products, as below market expectation, however these shoes are lowly priced. It is therefore imperative that the SMEs should aim to produce quality, durable and competitively priced products, to ward off competition from China. The introduction of Clusters is specifically meant to address this challenge. See the figure below illustrating the import dynamics from China, Rest of the World and from COMESA to COMESA.

¹ FAO Compendium of Statistics

² Assuming that the import prices range between US\$10



FOOTWEAR SUPPLY CHAIN: MATERIALS AND COMPONENTS³



This is only a non exhaustive example of the supply chain which, in any case and with some small differences, describes the different materials and components to be used for a normal footwear production.

TANNERIES: In few of the countries visited, the production of finished leather was low (with most of them producing semi-processed leather for export) could be considered sufficient for the needs of the local companies; the major constraint, however, is the very low quality of raw and finished product coming most of the times from an incorrect preservation of raw hides and insufficient technical capability along the whole process.

CUTTING DIES: essential and first phase of the shoe production is that of cutting in micro enterprises with low daily production of more than 100 pairs. This assumes a fundamental importance for the quality of the product. We could find the equipments for making cutting dies in only one Center and one private company which, on the other end, were unable to produce them due to unavailability of the necessary steel blades.

LAST COMPANIES: without a last it is impossible to produce any kind of footwear and especially a fashionable one. In the five countries visited there seems not to be any company of this kind and the lasts for the local production have been already repeatedly used for years without being changed to meet emerging trends.

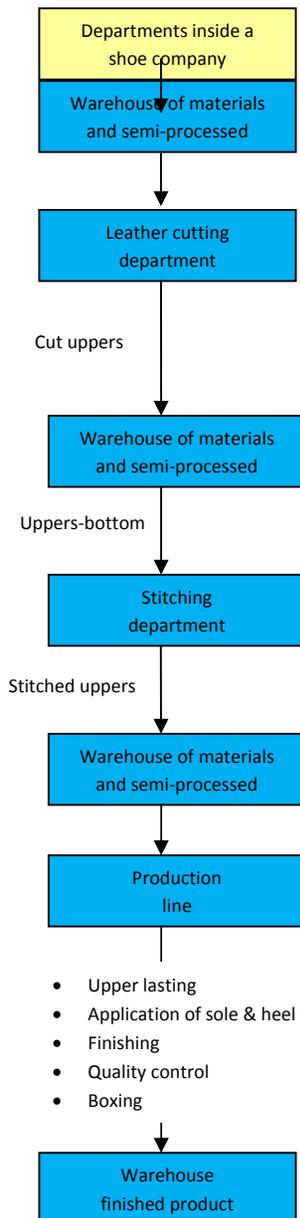
INSOLES, HEELS, SOLES A BOTTOMS: Few PVC (Polyvinyl chloride) injection machines are working and, in any case, almost only for men items to be produced most

³ A. Martinelli (2014)

probably for years ahead. No TPR (Thermo Plastic Rubber) or PU (*Polyurethane*) machines are available, whose production is without any doubt lighter, fashionable and more comfortable. Insoles are generally cut by hand with undeniable quality problems; no heels and leather or synthetic leather soles.

ACCESSORIES: other simple accessories like rivets, buckles and different fashionable ornaments are quite difficult to find; in one of the countries entrepreneurs are even using second hand buckles.

THE FOOTWEAR FACTORY SECTIONS LAYOUT⁴



The side scheme is, in general, the settlement of all the departments inside a production company where all the phases are implemented inside the company itself. We are speaking, of course, of a daily production which has nothing to do with the production of the small/cottage companies we visited which, in most cases, don't exceed 5 pairs a day.

ROOM AVAILABILITY: one of the main problems of the small/cottage companies of the area is the availability of sufficiently large rooms at adequate rates, which could enable a better environment and sufficient spaces both for the machines and the workers who, most of the times are working simply sitting on the floor. The figures underneath show two different limit cases:

⁴ A. Martinelli (2014)

Conclusion

The potential, which the leather value chain in the COMESA region holds is immense; and also the huge market base makes the market less contestable for MSMEs. It should be recognized that the shortage of finished leather, equipment and other important accessories, as illustrated in the section dealing with footwear supply chain, is an area that requires concerted effort from international and regional technical and financial support institutions and national governments. The next chapter presents the findings of the baseline survey, with regard to the performance of MSMEs in Burundi, Kenya, Rwanda, Uganda and Zimbabwe.

CHAPTER 2 : SITUATIONAL ANALYSIS OF THE SMES IN THE FOOTWEAR MANUFACTURING SUBSECTOR

Introduction

This chapter presents the findings of the situation currently prevailing with SMEs. They are operating as stand alones, with no support from any technical or business institutions. It thus sets the baseline with regard to the performance indicators of SMEs and also reveals the potential these SMEs hold.

Social and Economic Importance of SMEs

Studies^{5, 6} in the selected countries show that SMEs represent more than 95% of enterprises in most developing countries. Considering the large potential of the leather sector for employment, SMEs involved in raw material marketing, production of finished leather goods, and sale of finished leather products are many in all the five study countries. Most of the SMEs, however, were/are operating informally in traditional way, with low productivity, poor quality products and serving small localized markets.

Socio- Economic Profile of SMEs in the Footwear Subsector

Table 2 summarizes some of the characteristics of the SMEs who were interviewed. The mean age of SME owners ranged from 37.8 \pm 5.3years for Burundi to 44.89 \pm 7.7 years for Kenya. The duration that the SMEs have been operational also varied among the study countries. It ranged from 1 to 30 years. Nearly 53% had less than ten years existence followed by 27 % which were in 11-20 years SME experience category whereas the remaining 20% had 21 to 30 years experience. Increased number of newly established SMEs (53% of SMEs) shows the important role of the SME sector in job creation and meeting increased demand emanating from such enterprises. The mean duration that the SMEs have been operational was 9.18 \pm 7.48 years for Zimbabwe, 11 \pm 8.29 for Rwanda, 13 \pm 7.4 for Uganda, 16.5 \pm 6.63 for Burundi and 17.71 \pm 8.38, for Kenya. The lowest mean duration for Zimbabwe compared to other countries might be a reflection of more number of recently established SMEs in the former.

In the study countries the SMEs had different employees size with 75% of the SMEs having less than 5 employees. The overall mean value was 5.5 \pm 6.2 persons. Average employees' number per SME was 11.38 \pm 12.26 persons, with female employees representin 45% for Kenya to 2.68 \pm 1.16 employees with 21.57% female for Zimbabwe (Table 2). Female owned SMEs were, however, very few in numbers across study counties (less than 10%). This very small proportion of women in SME ownership, despite their representation for up to nearly half of the working force, seems due to resource limitation that requires serious attention from the side of policy makers and transform the general perception that leather related work is a machine based engagement. Thus the need to mainstream gender is important.

⁵IFC- International Finance Cooperation(2012)

⁶SMEs and growth in Sub-Saharan Africa (2010)

Table 2: Demographic Characteristics of SMEs in Study Countries

Country	Mean Age of SME owner	SMEs Owned by Female (in %)	Years of Experience	Employees size	Female employees (in %)
Burundi	37.8 ±5.3	0	16.5±6.63	6.12±3.2	35.3
Kenya	44.89 ±7.7	22.2	17.71 ±8.38	11.38 ±12.26	45.05
Rwanda	34.33±8.36	16.66	11 ±8.29	5.67 ±2.07	14.71
Uganda	40±7.3	22.2	13 ±7.4	5.89 ± 5.25	30.19
Zimbabwe	39.74 ±6.88	5.26	9.18 ± 7.48	2.68 ±1.16	21.57

Table 3 shows level of education of SME owners. Almost all SMEs owners had secondary or above education level. More than half of the Ugandan SME owners were Diploma holders. Moreover the lower level of specialized courses amongst the SMEs demonstrate the need for capacity building in the sector as illustrated in Table 3.

Table 3: Specific Level of Education of SME Owners (N=47)

Countries	Primary (in %)	Secondary (in %)	Vocational (in %)	Certificate (in %)	Diploma (in %)	Degree (in %)	Others (in %)
Burundi		14.3		28.6	42.8		14.3
Kenya		33.3	11.1	22.2	33.3		
Rwanda	16.7	16.7	33.3	16.7	16.7		
Uganda		11.1		11.1	55.5	22.2	
Zimbabwe		50	4.5	31.8	4.5		9.1

Figure 1 illustrates the proportions of SMEs Owners in different levels of Education. Diploma, Secondary education and certificate levels attained SMEs owners were higher in number compared to other levels. It is an established fact that level of education has positive association with technology adoption.

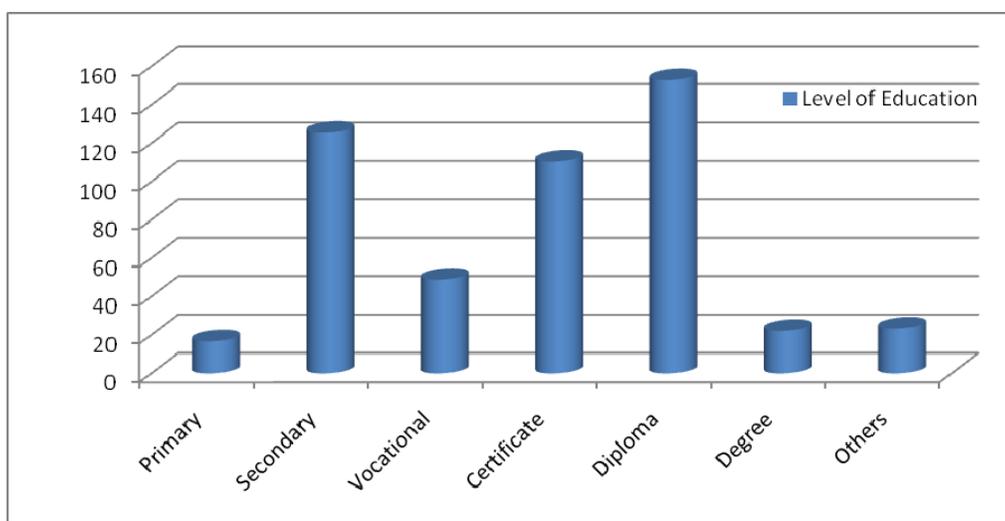


Figure 1: Education Level of SMEs for all Study Countries

Table 4 shows variability between countries as to how the SMEs owners acquired their footwear making skill. With exception of Ugandan SMEs' owners, in all other four study countries, the large majority of SMEs owners (>70%) had no access to

formal training institutions to acquire footwear making skills. In these countries friends and family were the major source of skills development.

Table 4: SME Owners source of Acquiring Footwear Making Skills

Countries	Self –taught (in %)	From friends and family (in %)	From previous job (in %)	Vocational (in %)	Others (in %)	Total
Burundi	-	44.4	22.2	33.3	-	100
Kenya	20	50	-	30	-	100
Rwanda	27.3	36.4	27.3	-	9.1	100
Uganda	-	-	-	66.7	33.3	100
Zimbabwe	25	12.5	41.7	12.5	8.3	100

As illustrated in Figure 2, previous jobs, vocational training institutions and friends and families were dominant ways of transmitting footwear making skill in that order of importance.

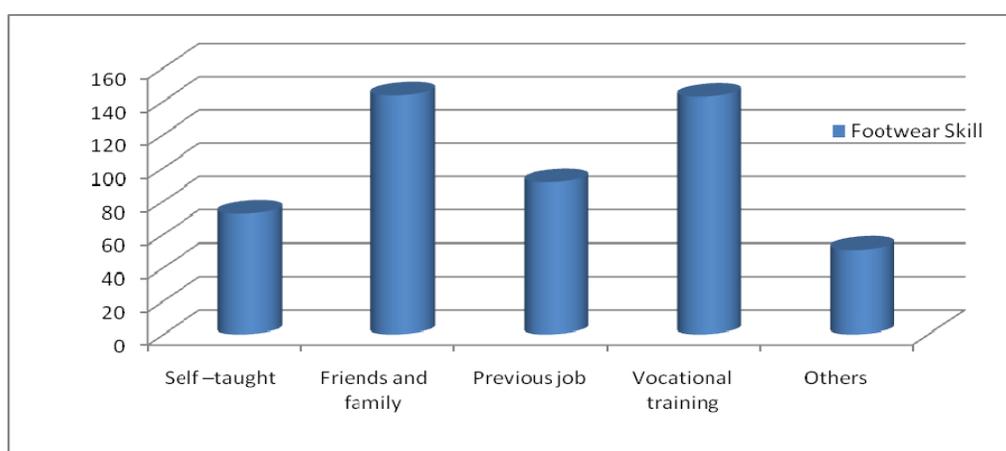


Figure 2:Source of Footwear Making Skills in order of Importance

SME Operations

In this section, issues pertaining to the supply and demand side of the operations of SMEs in five countries are presented, covering issues such as source of working capital, equipment and tools among others.

Table 5 shows summary of SMEs owners citations with respect to sources of their working capitals. Loans from financial institutions represented more than 50 percent of SMEs working capital in Rwanda while for the majority of Kenyan (60% and Ugandan (77.8%) SMEs it was their own savings.

Table 5: Sources of Working Capital for SMEs

Countries	Own Savings (in %)	Retirement package (in %)	Friends and relatives (in %)	Financial Institution (in %)	NGO (in %)	Others
Burundi	20	10	10	20	40	-
Kenya	60	-	10	30	-	-
Rwanda	28.6	-	14.3	57.1	-	-
Uganda	77.8	-	-	11.1	11.1	-
Zimbabwe	70	5	20	-	-	5

Figure 3 below illustrates the most important source of capital in the five countries. The dominance of own savings as a source of capital signifies the determination that the owners of these SMEs have. On the other hand, the limited support from financial institutions, is explained by the high interest rates, which are above 16% in the five countries, and also the stringent collateral requirements, as traditional lending institutions, rates SMEs as high risk, because of their informal outlook. SMEs in Rwanda seem better supported by financial Institutions. The Business Development Fund Ltd, a new company established to support SMEs in form of on and off farm Credit Guarantee, Lines of Credit, Matching Grants as well as Advisory Services, might have enhanced the SMEs opportunities to access credit facilities.

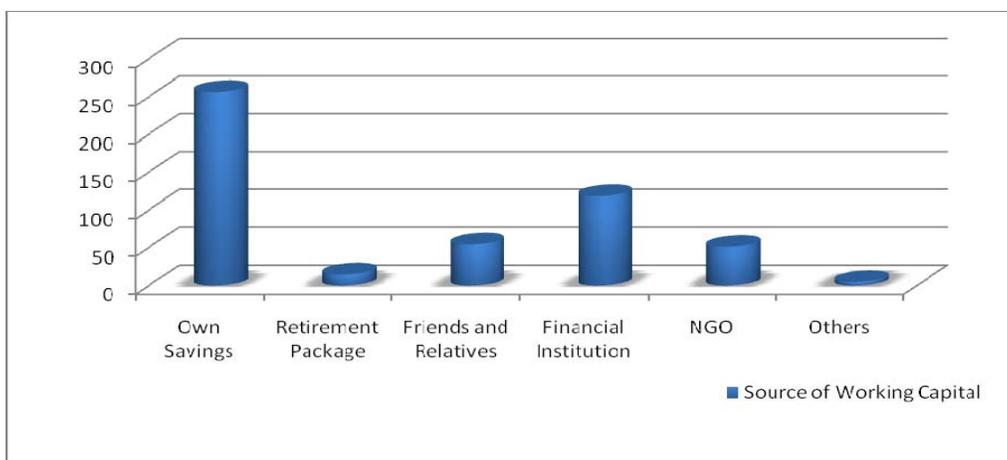


Figure 3: Sources of Working Capital in Five Countries

Availability of Machinery, Equipment and Tools

The tools and some machineries used by SMEs were very few in number and in all cases very old. The majority (>50% of the SMEs) of Kenya and Zimbabwe indicated the tools and machineries were not reliable (Table 6). It is obvious that the functionality of the machineries and tools will have considerable effect on the productivity and quality of the products to meet the expectation of clientele. Thus, SMEs should be facilitated and have their capacities built in machineries and tools so that they become competent for the intended intra regional trade. Moreover, technological interventions are pivotal in addressing the underlying value addition initiatives that are pertinent in driving the region's desire to be a global player.

Table 6: Reliability of Machines and Tools for footwear Production (n=36)

Countries	Very reliable	Reliable	Not reliable
Kenya	1.1	33.3	55.6
Rwanda	20	60	20
Uganda	-	85.7	14.3
Zimbabwe	-	42.9	57.1

Access to Raw Materials

With the exception of Kenyan and Zimbabwe SMEs, the majority of Burundi, Rwanda and Ugandan SMEs travel to towns in neighboring countries to acquire raw materials for their footwear production (Table 7). One crucial factor contributing to the apparent

differences in cost of production of footwear could be the non availability of raw materials and accessories for footwear making in the local markets.

Table 7: Source of Raw Materials as cited by SME Owners (n=74)

Countries	Local Market	Nearby town	COMESA countries	Others	Total
Burundi	41.7	8.3	50	-	100
Kenya	80	10	-	10	100
Rwanda	14.3	14.3	71.4		100
Uganda	40	20	20	20	100
Zimbabwe	72	8	16	4	100

For countries that depend on the local market, eg. Kenya and Zimbabwe, they also act as exporter of finished leather and other accessories to Burundi, Rwanda and Uganda. As such strengthening of these countries to provide large quantity of materials is essential. In most aspect the countries need to have capacities ie. skills to produce quality leather for getting better produced leather products.

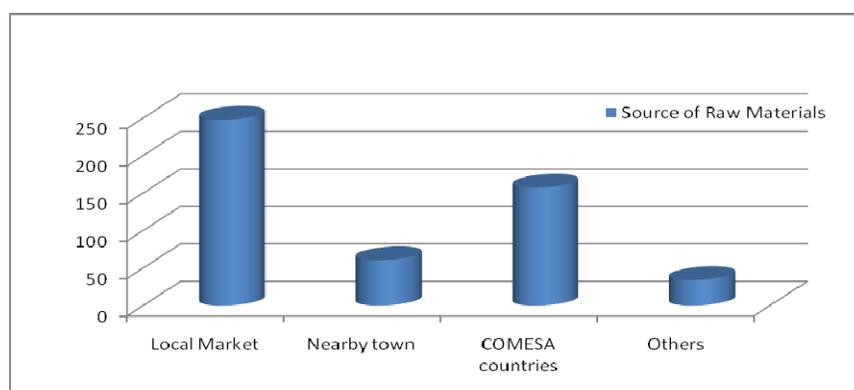


Figure 4: Source of Raw Materials used by SMEs

A total number of 136 citations were made by SMEs identifying them as challenges for acquisition of raw materials for their footwear production activities. Table 8 shows the distribution of the more frequently cited challenges. Price, poor quality and shortage in local market were the more frequently cited challenges in Burundi, Kenya, Rwanda, Uganda and Zimbabwe (Table 8). All the study countries taken together, poor quality was the most frequently cited challenge followed by shortage in the local market, price and limited variety in that order (Figure 4).

Table 8: Major Challenges for Procuring Raw materials as cited by SMEs

Countries	Price (in %)	Transport (in %)	Poor quality (in %)	Shortage (in %)	Limited Variety (in %)	Total (in %)
Burundi	21.4	21.4	17.9	21.4	17.9	100
Kenya	5.7	5.7	31.3	43.8	12.5	100
Rwanda	21.4	14.3	35.7	21.4	7.1	100
Uganda	26.9	11.5	22.2	23.1	19.2	100
Zimbabwe	26.9	3.8	28.8	21.2	19.2	100

The Figure below shows the regional pictures with regard to the issues that are constraining SMEs with regard to raw materials procurements. Three main important issues were identified as poor quality, shortage in local market and high price. It is

pertinent to note that an intervention, which groups SMEs into clusters, and is involved in bulk procurement, completely mitigates against these issue.

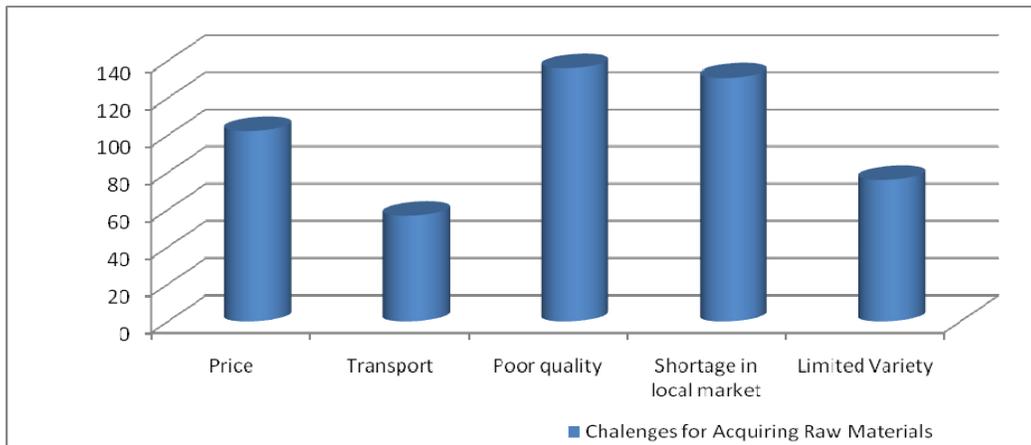


Figure 5: Issues impacting on Raw materials in Five Countries

Footwear Manufacturing Value Chain

Figure 6 illustrates the whole shoe value chain and all the steps of the shoe production; the velvet color representing the supplier companies of materials and components, the blue color designs the main company with all the internal production steps and finally in orange color the specialized suppliers companies belonging to the so called delocalization of the single phases of the work.

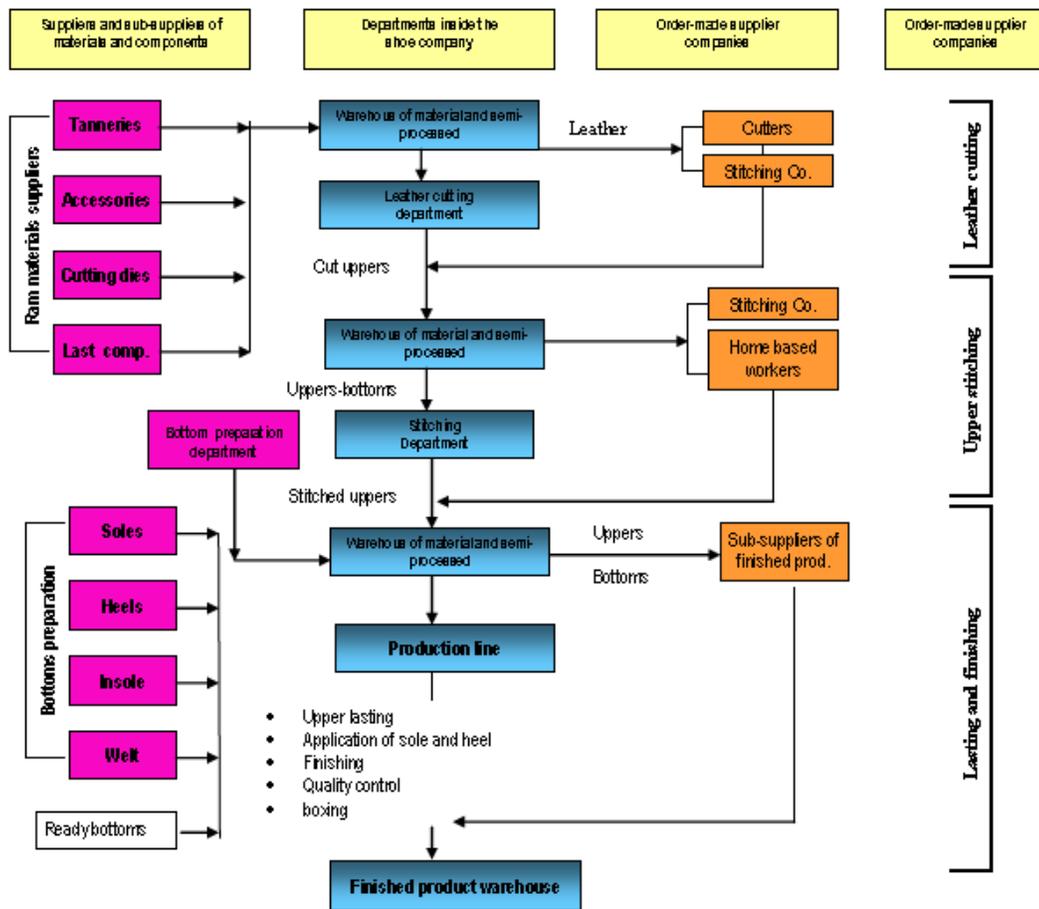


Figure 6: The Footwear Manufacturing Value Chain

Source: A. Martinelli (2014)

Types of Footwear Produced and productivity

Summary of data on production performance of SMEs of men, ladies, school and sandal shoes in the study countries and the average selling prices at production units' gates levels are presented in Tables 9 and 10.

In general shoes selling prices were lower for Kenya SMEs and highest in Rwanda (Tables 9 and 10).

Table 9: Production of Men's and Ladies Shoes

Countries	Men shoe (pairs of shoe)				Ladies shoe (pairs of shoe)			
	Min.	Max	Mean± SD	Selling price (in USD)	Min.	Max	Mean ±SD	Selling price (in USD)
Kenya	15	20	27.5± 15.5	9.3±4.2	15	25	20±7.1	9.5±3.5
Rwanda	10	50	30±28.3	45	15	20	17.5±3.5	33.8±15.9
Uganda	4	100	26.8±41.5	35± 7.1	10	50	30±28.3	25±7.1
Zimbabwe	3	30	10.18±8.5	29.9±4.9	3	40	14.1±13.5	24.9±5.7

The overall average production per day and per SME for men and ladies shoes were respectively 18.9 ±22.7 and 27.8 ±43.3.



a) Office bag



b) Ladies shoe



c) Men's Sandal Shoe



d) Ladies Sandals shoe

Figure 7: Shoe Samples pictures from Burundi



a) Mens shoe



b) Children shoe



c) School shoe



d) Men's shoe

Figure 8: Shoe Samples from Kenya



Figure 9: Shoe samples from Rwanda



Figure 10: Shoe Samples from Uganda



Figure 11: Shoe Samples pictures from Zimbabwe

The overall average production per day and per SME for School shoe and sandals were, respectively, 26.5 ± 33.5 and 25.5 ± 21.3

Table 10: Production of School Shoes and Sandals

Countries	School shoe (pairs of shoe)				Sandals (pairs of shoe)			
	Min.	Max	Mean \pm SD	Selling price (in USD)	Min.	Max	Mean \pm SD	Selling price (in USD)
Burundi					5	13	10.5 \pm 3	10.3 \pm 4.8
Kenya	80	100	90 \pm 14.1	7.5 \pm 0.7	20	150	55 \pm 48.1	5.7 \pm 2.2
Rwanda					5	70	25.8 \pm 24.2	12 \pm 2.5
Uganda	5	500	114.3 \pm 197.2	18.5 \pm 3.5	10	100	34.3 \pm 34.4	12 \pm 3.7
Zimbabwe	3	40	12.8 \pm 11.2	18.3 \pm 4.1	5	50	16.5 \pm 11.8	10.8 \pm 1.2

Main Inputs and Costing

The large majority of respondents (more than 80%) in each study countries indicated that they were calculating the cost of their products before production. However business record keeping was not a common practice in nearly half of the SMEs in Burundi and Zimbabwe (Table 11), which makes one to wonder if these SMEs are doing any costing.

Table 11: Summary of response of SMEs regarding their Experience on Costing of their products and Keeping of Business Records

Variable	Burundi (N=6)	Kenya (N=9)	Rwanda (N=6)	Uganda (N=9)	Zimbabwe (N=19)
Do you do costing before production?[% yes]	83.33	88.89	100	88.89	84.2
Do you keep business records?[% yes]	50	66.67	100	100	52.63

The main inputs used in the production of footwear are leather, soles, glue and other accessories. The direct material cost of the different types of shoes produced by MSMEs are presented in tables 12 to 14. Leather and sole were representing major cost items for all shoe categories. In men's shoe production the cost share of leather ranged from 47.6% (for Rwanda) to 53.1% (for Zimbabwe) while that of sole was 15.9% (Rwanda) to 30.2 (Zimbabwe)(Table 13). As to the total cost of production of men's shoe the difference between study countries was considerable with list cost per pair of shoe in Kenya (\$US 8.51) and highest in Uganda (\$ US 16.03). From this observation what can be said is that any wastage or poor utilization of leather will have considerable effect on the profit margin and variations in cost of production have considerable influence on the competitiveness of the SMEs in the market.

Table 12: Cost of Production of Men's Shoes

Countries	Leather cost per pair of shoe			Accessories cost per pair of shoe in USD					Total cost (\$US)
	Leather per pair (in sqft)	Price per sqft	Leather Cost (\$US)	Sole (\$US)	Insole (\$US)	S hanks (\$US)	Glue (\$US)	*Others (\$US)	
Kenya	2.45	1.67	4.1(48.2)	1.5(17.6)	0.67(7.9)	0.19(2.2)	0.73(8.6)	1.34(15.7)	8.51
Rwanda	3	2.11	6.3(47.6)	2.1(15.9)	1.95(14.7)	0.75(5.7)	0.75(5.7)	1.34(10.1)	13.23
Uganda	2.7	2.86	7.7 (48)	4.6(28.7)	0.74(4.6)	0.21(1.3)	1.42(8.9)	1.34(8.4)	16.03
Zimbabwe	2.63	3	7.9(53.1)	4.5(30.2)	0.58(3.9)	0.39(2.6)	0.24(1.6)	1.34(9)	14.89

*: Toe Puff front, Back counter, Shoelaces, Eyelets, Machine Thread, Sock Lining, Polish and color
 Figures within brackets show percentage of the total cost

Table 13 illustrates details of cost of production of school shoes in the five study countries. Price per square feet of leather for school shoe was highest in Uganda and least in Kenya but the quantity of leather used for a pair of school shoe in Rwanda was as high as twice that of other study countries and consequently the cost of production in Rwanda was highest. Here also Kenya turned more competitive with a least production cost (US\$ 7.08). School shoe being an area of high market potential it is important to work towards reducing cost of production to enhance competitiveness.

Table 13: Cost of Production School Shoe

Countries	Leather (in sqft)			Accessories					Total cost (\$US)
	Mean	Price /Sqft	Total cost (\$US)	Sole (\$US)	Insole (\$US)	Shank (\$US)	Glue (\$US)	*Others (\$US)	
Kenya	1.7	1.67	2.9 (41)	1.8(25.4)	0.67 (10)	0.19(2.7)	0.36(5.5)	1.2(16.4)	7.08
Rwanda	4	1.95	7.8(60)	2.1(16.1)	0.45(3.4)	0.75(5.8)	0.75(5.8)	1.16(8.9)	13.01
Uganda	2.38	2.4	5.7(51.2)	2.2(19.7)	0.55(4.9)	0.21(1.9)	1.32(11.8)	1.16(10.4)	11.14

Zimbabwe	2.04	2.13	4.4(40.4)	4.0(37.8)	0.59(5.4)	0.44(4)	0.31(2.8)	1.16(10.7)	10.88
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*: Toe Puff front, Back counter, Shoelaces, Eyelets, Machine Thread, Sock Lining, Polish and color
 Figures within brackets show percentage of the total cost

Table 14 shows production cost details of sandals. Despite differences in cost of leather, the total production cost of sandals were much closer to each other between study countries.

Table 14: Cost of Production Sandals

Countries	Leather (in sqft)			Accessories				Total Cost (\$US)
	Mean (SD)	Av. Price /Sqft	Total cost (\$US)	Sole (\$US)	Insole (\$US)	Glue (\$US)	*Others (\$US)	
Burundi	1.17	2.27	2.65(37.2)	2.27(31.6)	1.4(19.5)	0.51(7.1)	0.35(4.9)	7.18
Kenya	1.3	1.73	2.25(39.9)	2.68(47.3)	-	0.39(6.9)	0.35(6.2)	5.67
Rwanda	2.1	2.11	4.43(52.1)	2.71(31.8)	0.45(5.3)	0.57(6.7)	0.35(4.1)	8.51
Uganda	1.67	2.524	4.21(53.2)	1.35(17.1)	0.67(8.5)	1.33(16.8)	0.35(4.4)	7.91
Zimbabwe	1.56	1.80	2.81(46.4)	2.05(33.8)	0.5(8.3)	0.35 (5.8)	0.35(5.8)	6.06

*: Polish and color; Figures within brackets show percentage of the total cost

Gross Margins of SMEs per Pair of Footwear

The viability of a business enterprise depends, among others, by its ability to yield gross margin that could produce enough cash for raw materials purchase, payment of employees and all expenses. Any business that is unable to produce more cash than it consumes will die.

Thus the higher the gross margin, the larger the profit. The lower the gross profit margin, the smaller the amount of cash available to fund business operations and investment in future growth. Table 16 shows differences between countries in gross margin. Profit margins are relatively small for Kenyan SMEs in all men's, school and sandals shoes more likely due to high competition between large numbers of SMEs. The enterprises in Rwanda were generating a minimum and a maximum gross profit margin of 41.01 and 240.14 percent per pair respectively, for sandals and Men's shoe. Margins in Uganda and Zimbabwe range, respectively 51.71 to 118.34 and 68.2 to 100.81.

Table 15: Gross Profit Margin per Pair

Country	Shoe type	Production cost per unit (US\$)	Ex factory Price per Unit (US\$)	Gross Profit per Unit (US\$)	Gross Margin (%)
Burundi	Sandals	7.18	10.33	3.15	43.87
Kenya	Men Shoe	8.51	9.32	0.81	9.52
	School shoe	6.23	7.5	1.27	20.39
	Sandals	5.67	5.7	0.03	0.53
Rwanda	Men Shoe	13.23	45	31.77	240.14
	School shoe	13.03			
	Sandals	8.51	12.0	3.49	41.01
Uganda	Men Shoe	16.03	35	18.97	118.34
	Scholl shoe	11.14	18.5	7.36	66.07
	Sandals	7.91	12	4.09	51.71
Zimbabwe	Men Shoe	14.89	29.9	15.01	100.81
	Scholl shoe	10.88	18.3	7.42	68.20
	Sandals	6.06	10.8	4.74	78.22

Constraints Undermining the Performance of SMEs

Major Constraints: Cited and Ranked by SMEs

Interviewed SMEs made 179 citations of constraints that affect the running of their footwear manufacturing businesses. Table shows the summary of distribution of the citations by country. Working capital was cited most frequently in four out of the five study countries. However there were some difference between countries on the frequency of citations of other constraints (Table 13). Figure 11 shows the combined frequencies of all citation of the five study countries. Finance (working capital), poor equipment, lack of technical support and work space were the most frequently cited in first to fourth position in that order.

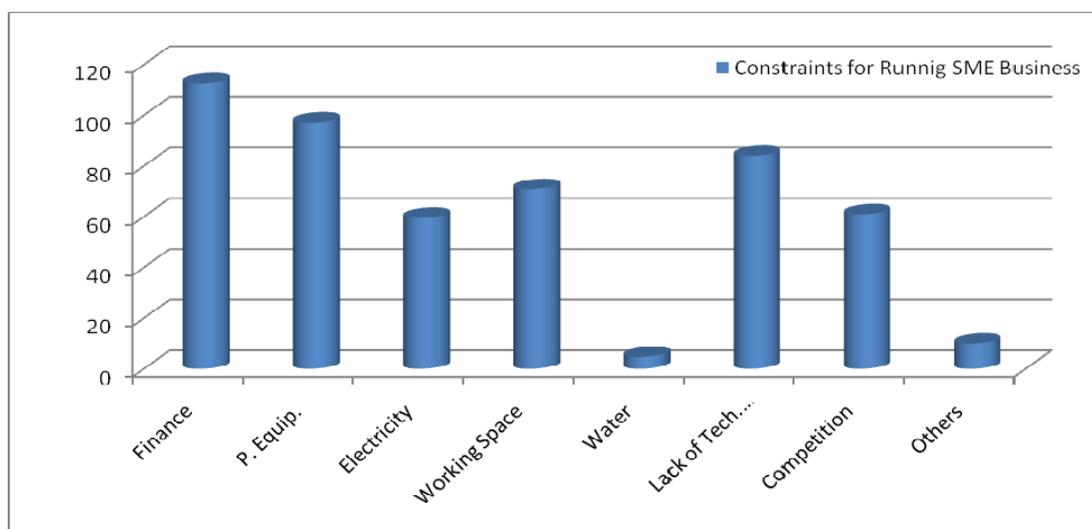
Table 16: Proplems of running Business as cited by SMES Owner by Country (n=179)

Countries	W.C (in %)	Poor Equip. (in %)	Electricity (in %)	Work space (in %)	Water (in %)	Lack of Tech. Support (in %)	Competition (in %)	Others (in %)	Total (in %)
Burundi	19.4	19.4	16.1	16.1	3.2	16.1	6.5	3.2	100
Kenya	21.1	18.4	7.9	18.4	-	15.8	13.2	5.3	100
Rwanda	18.2	22.7	9.1	18.2	-	18.2	13.6	-	100
Uganda	28.6	14.3	19	4.8	-	19	14.3	-	100
Zimbabwe	25.4	22.4	7.5	13.4	1.5	14.9	13.4	1.5	100

Nb: W.C.: working capital, Poor Equip.: poor equipment, Lack of Tech. support: lack of technical support

The figure below summaries the main issues impacting on the performance of SMEs in the five countries. Finance, poor equipment and lack of technical support, emerge as the main constraints hindering the growth and competitiveness of the SMEs. These constraints, have forced most of the SMEs to produce below breakeven point, low quality and standard of products, thus rendering uncompetitive in face of competition from large companies and also imports. These issues would be addressed by setting up services centres, which will also manage a revolving fund for the benefit of SMEs

Table 17: Constraints of running SME business as cited by SMEs Owners



NB: P. Equip.: poor equipment; Lack of Tech...: lack of technical support

Major constraints of SMEs as cited and ranked by SMEs

Table 14 presents the summary of constraints limiting the performance of SMEs as cited and ranked by the SMEs. Only constraints ranked from first to fourth rank were put together and presented in percentages of the total citation for each variable. Footwear making machineries problem was the top ranked constraint in Burundi, Kenya, Rwanda and Uganda. Zimbabwe SMEs put working capital problem in first position. Although there were some differences in the ranking of the constraint, the overall trend in the type of constraints identified and their importance remained comparable between counties. This observation shows that, irrespective of the importance attributed to the leather sector in the countries there were/are dire lacks of services and facilities geared towards strengthening the SME sector for the development of the leather industry.

Table 18: Major Constraints of SMEs as cited and ranked by SMEs (n=160)

Variable	Burundi (%)	Kenya (%)	Rwanda (%)	Uganda (%)	Zimbabwe (%)	Total (%)
Financial problem (Working capital)	8	24.2	4.2	4.2	27.8	68.4
Market access problem	20	9.1	4.2	4.2	11.1	48.6
Inadequate/absence of machineries	40	30.3	20.8	29.2	24.1	144.4
Import tax			8.3			8.3
Shoe last and other accessories	8	3	16.7			27.7
Working space inadequacy		12.1			13	25.1
Raw materials problem (quality, availability, cost)	4	9.1	20.8	25	13	71.9
Skilled manpower shortage		6.1	4.2	8.3	1.9	20.5
Lack of technical support	8	6.1	4.2	4.2	3.7	26.2
lack of training opportunity	8		8.3		1.9	18.2
Inadequacy of working Tools			4.2	12.5	3.7	20.4
Transport problem				8.3		8.3
Unfair Competition from imported second hand and Synthetic products			4.2	4.2		8.4
Lack of Service Center	4					4
Total	100	100	100	100	100	

Figure 12 presents the summary of constraints for all study countries taken together. Lack of machineries, raw material problem (availability, cost and quality), financial problem (working capital) and market problem were the most frequently cited constraints in first to fourth position, in that order. The constraints were indicated as affecting their overall performance. The inadequacy of machineries and tools and low quality of raw materials observed during the visits were also in agreement with the problems cited by the SMEs.

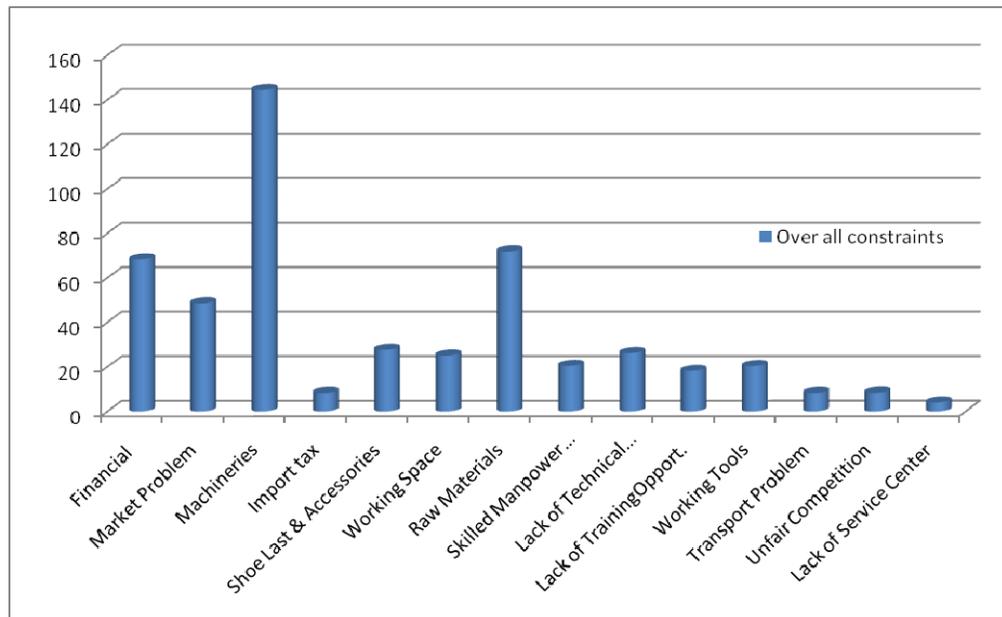


Figure 12: Overall constraints

Conclusion

From the above assessment it is clear that the SMEs have the potential to grow, if the main constraints they are facing are addressed in a holistic manner. The next chapter presents the Service Centre concept, as a mechanism of addressing the challenges being faced by SMEs.

CHAPTER 3 SITUATIONAL ANALYSIS OF EXISTING SERVICE CENTRES⁵

Introduction

This chapter assesses the existing Service Centres in Burundi, Kenya, Rwanda, Uganda and Zimbabwe, against the standard model of the best Service Centres operating across the globe. The rationale being to identify the gaps, that exist at the given Service Centres, and thus determine the investment needed to improve their capacity to deliver service to many MSMEs who are operating in their vicinity.

Service Centres

Several expressions are frequently found in the English-language literature to designate similar concepts with sometimes varying nuance, including industrial extension services, support services, advisory services, or business services. Among all these labels, the notion that most vividly portrays the actual nature and function of such services is that of “real services”, to indicate their impact on structural features of company behaviour, and notably on their competitiveness. Thus, “real” should not be interpreted as the opposite of “financial”: also the latter services may be real, to the extent that they have a structural impact. Ideally, the provision of these services may transfer knowledge and technology, and facilitate learning, thereby modifying in a structural, non-transitory way their organization of production and their relation with the market (Bellini, 2000).

Whereas a model is used to assess the existing centres in the selected countries, it is important to note that at the end of the day, the proposed service centres should be able to respond to the challenges that MSMEs are facing as articulated in the previous chapter. The centre would offer the traditional service centres services and also work as an incubation/capacity building centre and also manage a revolving fund on behalf of the SMEs.

Model Service Centre

In this section an outline of the structure, management, machinery, equipment and facilities layout of a typical footwear service centre is presented. The Service Centre offers the technical, procurement, management, capacity building, marketing and incubation services to the SMEs. The rationale of setting up service centres is that they assist in reducing transaction costs of SMEs, improve quality standards, linkages with suppliers and market, consequently boosting the competitiveness of its clients (SMEs).

Just like the majority of the European facilities of this kind, such types of Centers should have a public/private management, a well defined field of action and heads of the 3 main functions (services – marketing – training) under the guidance of a director, who is capable to interact with the public bodies concerned with the Center as well as with the local companies and other possible international interlocutors

⁵ For detailed elaboration, see Annex 1: report by Alfredo Martinelli

(donors, suppliers and possible new customers). The figure below illustrates the orgonogram and services, which could be offered by a typical Service Centre.

Service Center Possible Scheme

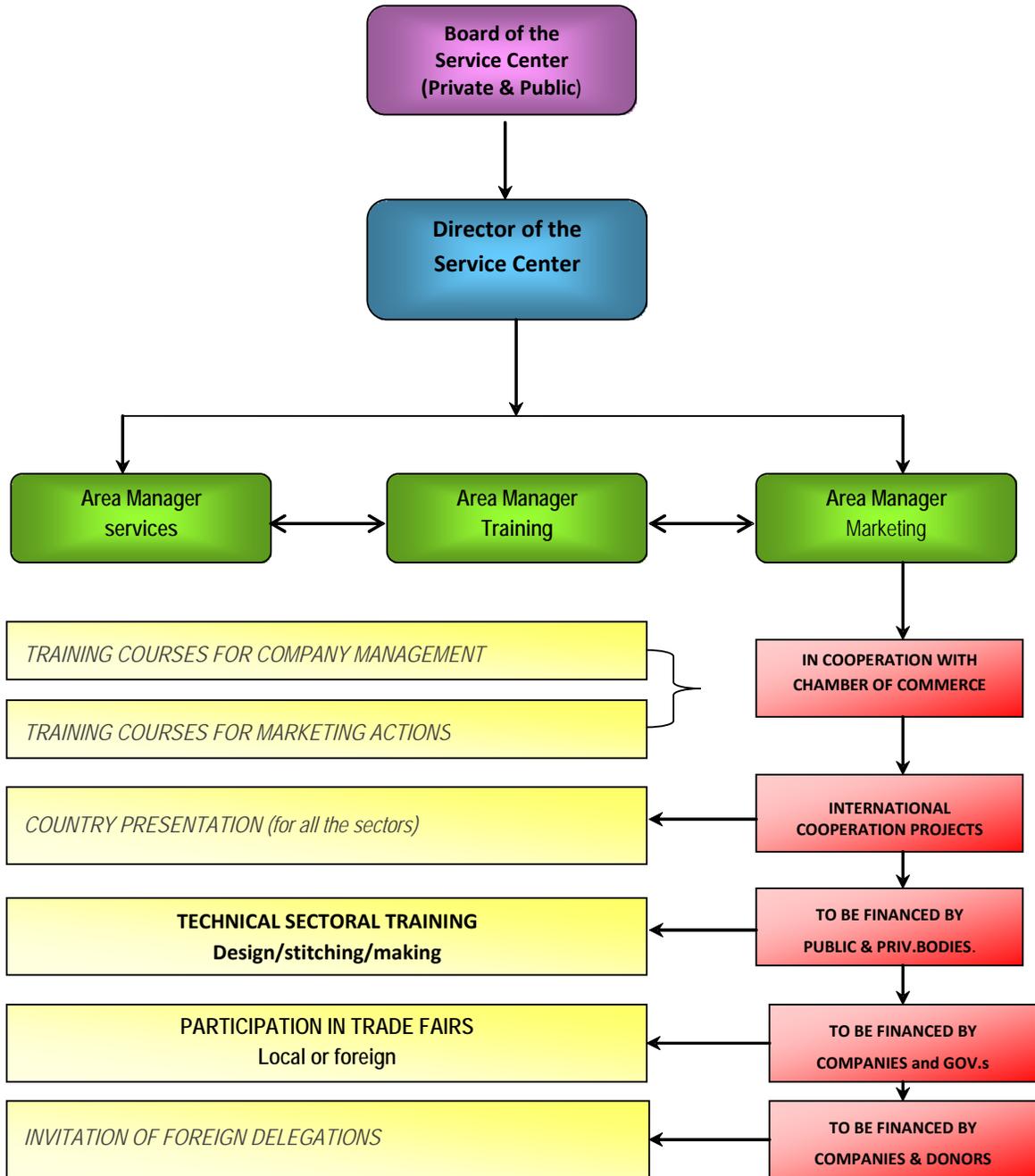


Figure 13: Service Centre Structure and its Services

Management Personnel for a Model Service Centre

SERVICE CENTER DIRECTOR: He/she is possibly a graduate in management or economy, with a proved experience in the sector and a real capability to interact with local public partners. Such a director should be also in the position to create possible collaborations with foreign partner (suppliers and/or new customers), which are two of the major gaps of the local companies. The director is fluently speaking English and possibly another European language.

MARKETING AREA MANAGER: This is a department of the Center almost always really under-estimated, which assumes a remarkable importance in the relationship with the local companies; the area manager can understand their needs and together with the head of the services department can work to address any kind of problems mostly related to low technical capability of workers, and/or local non availability of materials and components. Other possible interventions, which could enhance the possibility to develop the technical capacities of local companies is without any doubt the contact with possible new suppliers; the exchange of ideas on new fashion trends will undoubtedly bring something new in the companies' way of producing with enormous advantages deriving from a new concept of understanding the fashion needs of possible local and foreign customers.

SERVICES AREA MANAGER: Till now, all the Centers taken into consideration have wrongly considered training as the only one service to be provided to the local shoe companies. The lack of technical capacities together with the absence of small components, suppliers or even small sectorial clusters opens new possibilities for the Centers, which could use their facilities and competencies to address some of these needs. Grading of new items, for example, is one of the most classic services to be provided to the companies, which till now have done this only manually with enormous difficulties and several quality problems. The preparation of cutting dies, the use of cutting press or the use of special machineries inside the Stitching Department could be other good examples of the way this kind of collaboration could be performed.

The incubation of new small companies with well defined projects in well equipped spaces according to the European method of delocalization and specialization of the work could be one of the other possible services that, together with the main target of developing the sector, can also provide some additional resources for the Centers' self -sustainability without waiting for the support of external international cooperation NGOs or other donors.

TRAINING AREA MANAGER: Undoubtedly this is one of the most important departments of a Center; according to the scheme of delocalization of the single phases of the work, new specialized vocational training courses could be studied together with the possibility to train workers on the job in case of availability of local, equipped incubation spaces managed by the same department and trainers of the Center.

These kinds of training programs should be studied to be done along the whole year by trainers of the Center, or Comesa area, specialized in the single phases of the work (design, cutting, stitching and making) and taking into account that such trainers should be re-trained according to the new working techniques and trends. A close

cooperation and interaction among the different departments of the Center will undoubtedly help the study of new programs and solutions.

One of this new proposal could be the presentation of new fashion trends inside a Trade Fairs in one of the countries taken into examination (AALF – all African Leather Fair), which from one hand could be useful for designers to study new collections and on the other end for shoe makers to be updated on what possible new customers are going to commercialize for the coming season, and being at the same time a good opportunity to meet suppliers of new materials and components from neighbor countries or from Europe.

Equipment, Layout and Offices

The following layout shows an ideal structure of a possible new Service Center (*the measures are merely indicative and don't reflect exactly the rooms needed for the machines and all the other utilities*).

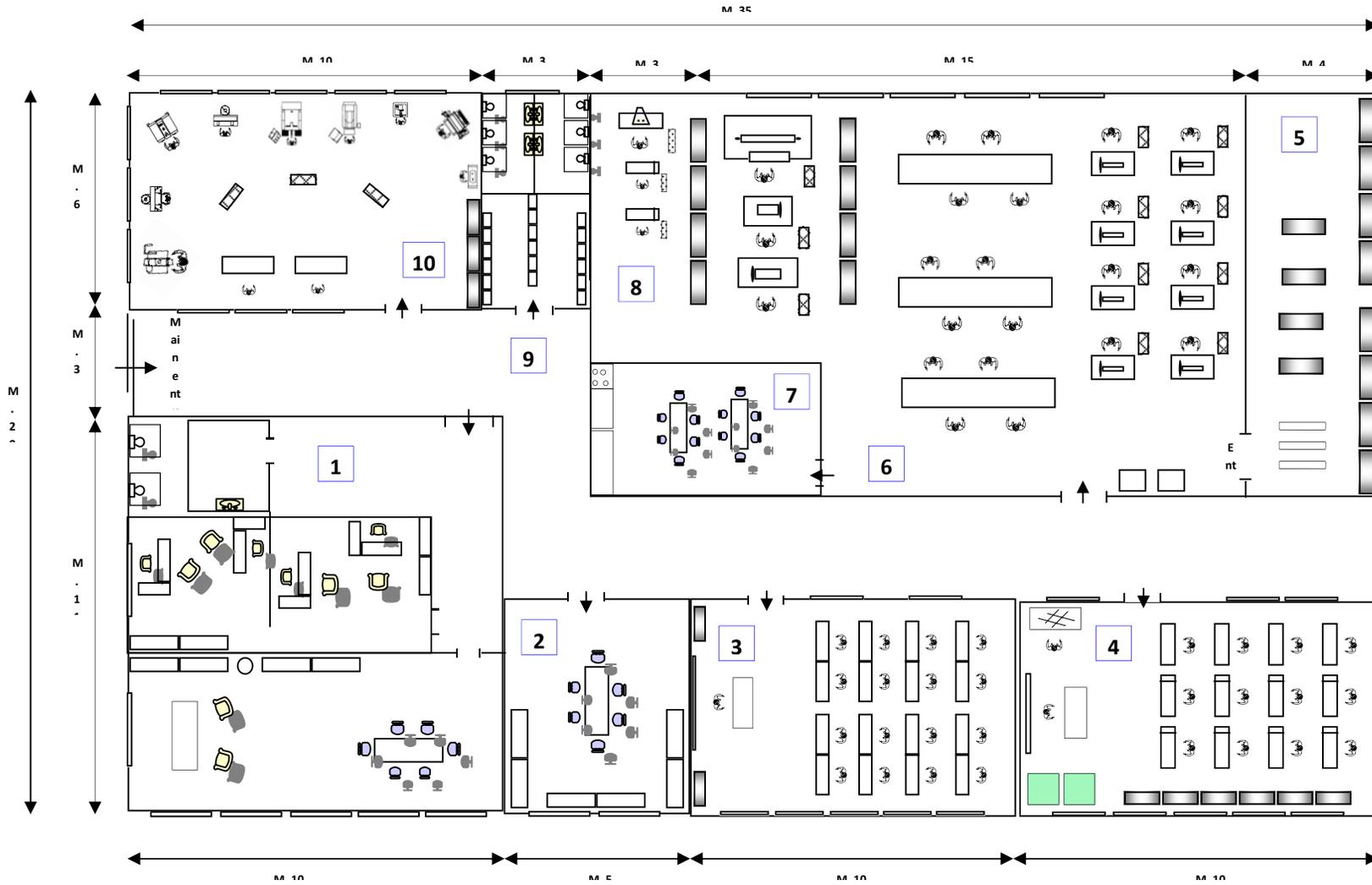
The spaces reserved and equipped for the single phases of the shoe production can be listed as follows:

- N. 1 Office building
- Manager office and meeting room
- Expert office
- Trainers office
- Toilets
- N. 2 Show room
- N. 3 Classroom for theoretical lessons and presentations
- N. 4 Classroom for pattern making
- N. 5 Materials warehouse/store
- N. 6 Closing and stitching room
- Preparation leather goods
- Preparation footwear
- Stitching leather goods
- Stitching footwear
- N. 7 Lunch and rest area
- N. 8 Cutting area for leather good and footwear
- N. 9 Toilettes and wardrobe
- N. 10 Lasting and assembling area for footwear

The figures below presents the total outline of the service centre, and the detailed layouts of each section is shown in annex 1

SCHEME OF IDEAL SERVICE CENTER

Figure 14: Illustration of a Model Service Centre



Comparative Analysis of the Model against the Existing Centres and Costing

Given the presentation of a model service, which illustrates the personnel and equipment required to run a successful Centre, in this section a gap or comparative analysis is undertaken with regard to Centres currently in operation in Burundi, Kenya, Rwanda, Uganda and Zimbabwe

Burundi: Kamenge

The public space, made available by the local Ministry of Industry, is located 3 kilometers from the capital city Bujumbura. It is a room of about 80/100 square meters in which are located some tables for the uppers preparation, 4 stitching machines and one roughing machine donated sometime ago by UNIDO (UN Industrial Organization for Development).

The table below summaries the comparison between the Centre in Burundi and a model Service centre. In addition it lists the machines which are needed to improve the status of this place into a Service Centre, which would aid its service delivery to the SMEs.

Table 19: Burundi: Gaps and Inputs for Transformation

Key attributes of a Model Service Centre	Existing Situation	Identified Gaps	Costing
PERSONNEL			
Center Director	0	In order to minimize the high overhead costs in initial years, these posts maybe combined into two: Technical Manager and Admin/Finance/Marketing Administrator. More personnel will be recruited as the centre gains sustainability	72,000.00
Marketing Manager	0		Over 3 years, as it is assumed by year 4 the centre will be able to carry this budget line.
Service Manager	0		
Training Manager	0		
Administrator	0		
General Staff	0		
EQUIPMENT			
CUTTING AND STITCHING EQUIPMENT			
Cutting Press *1	0	Cutting Press *1	3,990.00
Cutting Desks*2	0	Cutting Desks*2	1,300.00
Splitting Machine*1	0	Splitting Machine*1	16,950.00
Skiving machine*1	0	Skiving machine*1	3,950.00
Folding machine*1	0	Folding machine*1	8,500.00
Zig-zag machine*1	0	Zig-zag machine*1	850.00
Flat bed machines 1 needle*3	3	One very old for heavy works	2,340.00
Post bed machines 1 needle*3	1		0.00
Two needles post bed*1	0	Two needles post bed*1	1,575.00
Working tables 70x120 h.*3	3	Very dirty and old to be substituted	1,000.00
Small trolleys*11	0	Small trolleys*11	3,520.00
Shelves for materials and components	On the spot	Sufficient in number	
MAKING AND LASTING EQUIPMENT			
Toe top application machine (2 places*1	0	Toe top application machine (2 places*1	2,945.00
Back part moulding machine (2 places*1	0	Back part moulding machine (2 places*1	9,500.00
Lasting pin for insole	0	Lasting pin for insole application*1	350.00

Key attributes of a Model Service Centre	Existing Situation	Identified Gaps	Costing
application*1			
Toe lasting machine (thermoplastic with vaporizer)*1	0	Toe lasting machine (thermoplastic with vaporizer)*1	44,845.00
Back lasting machine with vaporizer*1	0	Back lasting machine with vaporizer*1	53,995.00
Roughing machine with aspirator*1	1 without aspirator	To be changed with a modern one	2,580.00
Brushing machine with speed regulator*1	0	Brushing machine with speed regulator*1	2,850.00
Heel nailing machine (pneumatic)*1	0	Heel nailing machine (pneumatic)*1	11,850.00
Sole pressing machine (2 places)*1	0	Sole pressing machine (2 places)*1	16,980.00
Glue reactivation machine*1	0	Glue reactivation machine*1	4,850.00
Compressor 500 lt.*1	0	Compressor 500 lt.*1	7,100.00
Table for glue application with aspirator	0	Table for glue application with aspirator	500,00
Working table 70x120*2	0	Working table 70x120*2	1000,00
Trolleys for last and uppers moving*3	0	Trolleys for last and uppers moving*3	3,510.00
DESIGN AND TRAINING EQUIPMENT			
Tables for pattern making/design*12	0	Tables for pattern making/design*12	7,800.00
Tools*12	0	Tools*12	600,00
Teacher desk*1	0	Teacher desk*1	250,00
Chair*1	0	Chair*1	200,00
Manual pantograph*1	0	Manual pantograph*1	2,100.00
Shelves for last and components*6	0	Shelves for last and components*6	1,500.00
Metal horse for leather*1	0	Metal horse for leather*1	1,500.00
shank board pallets*2	0	shank board pallets*2	1,500.00
Blackboard*1	0	Blackboard*1	500,00
CLASS ROOM EQUIPMENT			
Tables*10			1000,00
Chairs*20			2000,00
Teacher Desk*1			250.00
Chair*1			200,00
Closed Cabinet (front glass)*2			400.00
Screen for videos*1			1000,00
Video projector*1			1500,00
Laptop with DVD player*1			1,500,00
External loudspeaker*1			500,00
SPACE			
Cutting and stitching Room	0	Cutting and stitching Room	In kind contribution by host Institutions
Making and Lasting Room	0	Making and Lasting Room	
Design and Training Room	0	Design and Training Room	
Class Room	0	Class Room	
Director's office	0	Director's office	
Managers' offices*3	0	Managers' offices*3	
Meeting Room	0	Meeting Room	
Other			
<p>The so called Service Center is not really giving services but it is only a enough large room were some of the local workers (cobblers) are coming in order to use the existing machines to finish their custom made work. The lay-out suggestion made in my report could be used to incubate new small companies with easy productions like men and ladies sandals for a determined period of time. In this case there will be not sufficient room for warehousing the finished product.</p>			

Kenya: TPCSI

The Service Center T.P.C.S.I. (Training and Production Center for the Shoe Industry) is located in Thika, about one hour drive from Nairobi in which some shoes and leather goods enterprises are located. The Center is quite good managed by the present young Director Mr. Moses Mwangi, who is one of the trainers (design and pattern making) and he is also a shoe technologist, and Ms. Zipporah Muturi, responsible for the Stitching Department for shoes and leather goods.

With a surface of over 500 sq.mt., and other possible spaces to be utilized in a nearby building, the Center is well equipped for the phase of preparing and stitching, while for the phase directly involved in making and finishing some modifications should be done and some machines added. The Center has also a CAD system with cutting machine for the grading of new patterns and a quite new testing laboratory till now never used.

The table below summarizes the comparison between the Centre in Kenya and a model Service Centre. In addition it lists the machines which are needed to improve the status of this place into a Service Centre, which would aid its service delivery to the SMEs.

Table 20: Kenya Gaps and Inputs for Transformation

Key attributes of a Model Service Centre	Existing Situation	Identified Gaps	Costing
PERSONNEL			
Center Director		One Specific Project Coordinator, as the Centre already has staff. More personnel will be recruited as the centre gains sustainability	54,000.00
Marketing Manager			Over 3 years, as it is assumed by year 4 the centre will be able to carry this budget line.
Service Manager			
Training Manager			
Administrator			
General Staff			
EQUIPMENT			
CUTTING AND STITCHING EQUIPMENT⁶			
Cutting Press *1	2		
Cutting Desks*2	0	Cutting Desks*2	1,300.00
Splitting Machine*1	1		500.00
Skiving machine*1	1		500.00
Folding machine*1	1		500.00
Zig-zag machine*1	1		500.00
Flat bed machines 1 needle*3	4		500.00
Post bed machines 1 needle*3	3	+ 3 cylinder	500.00
Two needles post bed*1	3		500.00
Working tables 70x120 h.*3	Sufficient number		0.00
Small trolleys*11			3,520.00
Shelves for materials and components	Sufficient number		0.00
MAKING AND LASTING EQUIPMENT			
Toe top application machine (2 places*1	1		500.00
Back part moulding machine (2 places*1	1	Lasting pin for insole application*1	9,500.00
Lasting pin for insole application*1	0		350.00
Toe lasting machine (thermoplastic with vaporizer)*1	1		0.00
Back lasting machine with vaporizer*1	0	Back lasting machine	0.00

⁶ Where the machines are available a service budget has been allocated

Key attributes of a Model Service Centre	Existing Situation	Identified Gaps	Costing
		with vaporizer*1	
Roughing machine with aspirator*1	1		100.00
Brushing machine with speed regulator*1	1	Heel nailing machine (pneumatic)*1	2,850.00
Heel nailing machine (pneumatic)*1	0		11,850.00
Sole pressing machine (2 places)*1	1	Manual	16,980.00
Glue reactivation machine*1	0	Glue reactivation machine*1	4,850.00
Compressor 500 lt.*1	0	Compressor 500 lt.*1	7,100.00
Table for glue application with aspirator	0	Table for glue application with aspirator	500,00
Working table 70x120*2	0	Working table 70x120*2	1000,00
Trolleys for last and uppers moving*3	0	Trolleys for last and uppers moving*3	3,510.00
DESIGN AND TRAINING EQUIPMENT	0		
Tables for pattern making/design*12	0	Tables for pattern making/design*12	7,800.00
Tools*12	0	Tools*12	600,00
Teacher desk*1	0	Teacher desk*1	250,00
Chair*1	0	Chair*1	200,00
Manual pantograph*1	1	Plus 1 cad system not used	0.00
Shelves for last and components*6	0	Shelves for last and components*6	1,500.00
Metal horse for leather*1	0	Metal horse for leather*1	1,500.00
shank board pallets*2	0	shank board pallets*2	1,500.00
Blackboard*1	0	Blackboard*1	500,00
CLASS ROOM EQUIPMENT			
Tables*10			1000,00
Chairs*20			2000,00
Teacher Desk*1			250.00
Chair*1			200,00
Closed Cabinet (front glass)*2			400.00
Screen for videos*1			1000,00
Video projector*1			1500,00
Laptop with DVD player*1			1,500,00
External loudspeaker*1			500,00
SPACE			
Cutting and stitching Room			In kind contribution by host Institutions
Making and Lasting Room			
Design and Training Room			
Class Room			
Director's office			
Managers' offices*3			
Meeting Room			
Other			
<p>1 enough big room for about 10 people is available for training courses; with appropriate cutting desks, this room could be used for theoretical and design technical lessons. The service center has also a cad system and a manual pantograph which is not so frequently used for new items grading (I gave the director the new password for enabling the CAD system to work a month ago). The center can also produce new cutting dies, even if the steel for the production is locally scarcely available.</p> <p>A small testing laboratory with new machines (never used) is also available in which the most used physical and mechanical test on materials and finished product could be done.</p>			

Rwanda: Masaka

What originally was said to be a Service Center in Gasibo is really a production company, STAR LEATHER PRODUCTION COMPANY, originally financed by the local Ministry of Trade and Industry (Minicom) with a project dating 2009. Actually this factory, which should be the only one big producer in the country, is not yet operating all the stakeholders being trained by an Italian technician Mr. Giorgio Gadina.

The dimension of this new building of about 250 sq.mt., originally thought as an Incubation Center, is quite suitable for hosting a small production unit, which according to the original project should produce about 60/70 pairs of shoes daily and leather goods of different types.

and/or even in other countries.

MASAKA: UNIDO and RDB (Rwanda Development Board) started the project of the new Service center in Masaka at the end of 2008.

The table below summaries the comparison between the centre in Masaka, Rwanda and a model Service centre. In addition it lists the machines which are needed to improve the status of this place into a service centre, which would aid its service delivery to the SMEs.

Table 21: Rwanda Gaps and Inputs for Transformation

Key attributes of a Model Service Centre	Existing Situation	Identified Gaps	Costing
PERSONNEL			
Center Director			54,000.00
Marketing Manager		Technical Manager, as the Centre has administrative and marketing support from Rwanda Development Agency. More personnel will be recruited as the centre gains sustainability	Over 3 years, as it is assumed by year 4 the centre will be able to carry this budget line.
Service Manager			
Training Manager			
Administrator			
General Staff			
EQUIPMENT			
CUTTING AND STITCHING EQUIPMENT			
Cutting Press *1	1		150.00
Cutting Desks*2	5		150.00
Splitting Machine*1	1		150.00
Skiving machine*1	1		150.00
Folding machine*1		Folding machine*1	8,500.00
Zig-zag machine*1	1		850,00
Flat bed machines 1 needle*3	2		150.00
Post bed machines 1 needle*3	2		150.00
Two needles post bed*1		Two needles post bed*1	1,575.00
Working tables 70x120 h.*3	4		0.00
Small trolleys*11		Small trolleys*11	3,520.00
Shelves for materials and components		Shelves for materials and components	1000.00
MAKING AND LASTING EQUIPMENT			
Toe top application machine (2 places*1		Toe top application machine (2 places*1	2,945.00
Back part molding machine (2 places*1	1	To be checked (old)	9,500.00
Lasting pin for insole application*1		Lasting pin for insole application*1	350.00

Key attributes of a Model Service Centre	Existing Situation	Identified Gaps	Costing
Toe lasting machine (thermoplastic with vaporizer)*1	1	No vaporizer To be checked	44,845.00
Back lasting machine with vaporizer*1		Back lasting machine with vaporizer*1	53,995.00
Roughing machine with aspirator*1	1		0.00
Brushing machine with speed regulator*1	1		0.00
Heel nailing machine (pneumatic)*1	1	To be repaired	2,500.00
Sole pressing machine (2 places)*1	2		0.00
Glue reactivation machine*1	1		0.00
Compressor 500 lt.*1	1	Suitable oil missing	2,000.00
Table for glue application with aspirator		Table for glue application with aspirator	500,00
Working table 70x120*2		Working table 70x120*2	1000,00
Trolleys for last and uppers moving*3		Trolleys for last and uppers moving*3	3,510.00
DESIGN AND TRAINING EQUIPMENT			
Tables for pattern making/design*12	5		0.00
Tools*12	Sufficient nr.		0.00
Teacher desk*1		Teacher desk*1	250,00
Chair*1		Chair*1	200,00
Manual pantograph*1	1		0.00
Shelves for last and components*6	Sufficient		0.00
Metal horse for leather*1	1		0.00
shank board pallets*2	warehouse		1,500.00
Blackboard*1		Blackboard*1	500,00
CLASS ROOM EQUIPMENT			
Tables*10	10		0.00
Chairs*20		Chairs*20	2000,00
Teacher Desk*1	1		250.00
Chair*1		Chair*1	200,00
Closed Cabinet (front glass)*2		Closed Cabinet (front glass)*2	400.00
Screen for videos*1	yes		0.00
Video projector*1	yes		0.00
Laptop with DVD player*1	0	Laptop with DVD player*1	1,500,00
External loudspeaker*1	0	External loudspeaker*1	500,00
SPACE			
Cutting and stitching Room			In kind contribution by host Institutions
Making and Lasting Room			
Design and Training Room			
Class Room			
Director's office			
Managers' offices*3			
Meeting Room			
Other			
<p>The Masaka service center is quite new (was inaugurated in 2011) and the existing equipments are available also for leather goods. Some fashionable materials and components together with suitable tools were delivered directly from Italy specifically for two training courses for ladies' sandals (10 trainees each) for whom I was the trainer (copy of tools and materials list is enclosed).</p> <p>Even if enclosed in the original project, the back part lasting machine is not there. During the transportation from suppliers' countries some problems occurred to some of the machines that are not yet solved; the lack of expert mechanics for shoe machineries, in-fact, is one of the biggest problem not only in Rwanda; we could find only a local technician, expert for the electrical part of the machines, who was able to repair some of the problems.</p>			

Uganda: Training Common Facilities Centre

Located in one of the industrial areas of Kampala, T.C.F.C. at first glance seems to be a quite good shoe location where some collections of customers' companies are exhibited. Entering the working area the situation appears completely different; a big space, originally devoted to be the warehouse of materials, components and tools for training sessions and other services to be given to the local companies is totally empty and reflects the present conditions also of the training/services room.

On the other end there are some peculiarities in the Center which enable some solutions that could be copied and transferred also in other Centers of this kind. More specifically we could note a great number of customers coming around the Center (more than 60), the implementation of different kind of "stages" after the end of the different yearly training sessions, and the presence of three trainers for the phases of shoe making and marketing always available in the Center. Other local consultants are hired from time to time according to the needs of the Center.

Together with the technical courses normally done yearly, one of the trainings is dedicated to the management of shoe companies and has a particular importance for the sector development, this being issue always underestimated by the companies' owners. An agreement with a formal technician of the former Bata shoe factory should help the Center to maintain the machines but from the pictures showed, and from the visit to the T.C.F.C. premises this kind of collaboration doesn't seem to work so much.

About 50% of the machines located in the Center, in-fact, are not working and in some cases even very small and not expensive spare parts are not available with undeniable effect on the Center functionality. The table below summaries the comparison between the centre in TCFC and a model Service centre. In addition it lists the machines which are needed to improve the status of this place into a service centre, which would aid its service delivery to the SMEs.

Table 22: Uganda Gaps and Inputs for Transformation

Key attributes of a Model Service Centre	Existing Situation	Identified Gaps	Costing
PERSONNEL			
Center Director		Support the existing staff financially, as they are currently sustaining themselves, by running running craine shoes as side project.	72,000.00
Marketing Manager			Over 3 years, as it is assumed by year 4 the centre will be able to carry this budget line.
Service Manager			
Training Manager			
Administrator			
General Staff			
EQUIPMENT			
CUTTING AND STITCHING EQUIPMENT			
Cutting Press *1	1	Very old to be changed	3,990.00
Stripes cutter machine	1	Need spare parts	1,300.00
Splitting Machine*1	1	Not working (very old)	16,950.00
Skiving machine*1	1		500,00
Folding machine*1	0		8,500.00
Zig-zag machine*1	0		850,00
Flat bed machines 1 needle*3	1	Not working	2,340.00
Post bed machines 1 needle*3	3	2 need spares not available	1000,00
one needles cylinder*1	1		500,00
Working tables 70x120 h.*3		Disaster conditions; to be substituted	1,000.00

Key attributes of a Model Service Centre	Existing Situation	Identified Gaps	Costing
Small trolleys*11			3,520.00
Shelves for materials and components	A lot in the warehouse		0.00
MAKING AND LASTING EQUIPMENT			
Toe top application machine (2 places)*1	0	Toe top application machine (2 places)*1	2,945.00
Back part moulding machine (2 places)*1	0	Back part moulding machine (2 places)*1	9,500.00
Lasting pin for insole application*1	0	Lasting pin for insole application*1	350.00
Toe lasting machine (thermoplastic with vaporizer)*1	0	Toe lasting machine (thermoplastic with vaporizer)*1	44,845.00
Back lasting machine with vaporizer*1	0	Back lasting machine with vaporizer*1	53,995.00
Roughing machine with aspirator*1	1	Very old without aspirator	2,580.00
Brushing machine with speed regulator*1	0	Brushing machine with speed regulator*1	2,850.00
Heel nailing machine (pneumatic)*1	0	Heel nailing machine (pneumatic)*1	11,850.00
Sole pressing machine (2 places)*1	1	Very old functioning	16,980.00
Glue reactivation machine*1	0	Glue reactivation machine*1	4,850.00
Compressor 500 lt.*1	0	Compressor 500 lt.*1	7,100.00
Table for glue application with aspirator	0	Table for glue application with aspirator	500,00
Working table 70x120*2	0	Working table 70x120*2	1000,00
Trolleys for last and uppers moving*3	0	Trolleys for last and uppers moving*3	3,510.00
DESIGN AND TRAINING EQUIPMENT			
Tables for pattern making/design*12	0	Tables for pattern making/design*12	7,800.00
Tools*12	0	Tools*12	600,00
Teacher desk*1	0	Teacher desk*1	250,00
Chair*1	0	Chair*1	200,00
Manual pantograph*1	0	Manual pantograph*1	2,100.00
Shelves for last and components*6	0	Shelves for last and components*6	1,500.00
Metal horse for leather*1	0	Metal horse for leather*1	1,500.00
shank board pallets*2	0	shank board pallets*2	1,500.00
Blackboard*1	0	Blackboard*1	500,00
CLASS ROOM EQUIPMENT			
Tables*10	There is no space available for regular training sessions in TCFC present environment; the planned technical training is done inside the working area with all the problems connected to this type of location. Reasonably the new courses should be done in a new location already put at disposal of the local Association in the MTAC compound.		1000,00
Chairs*20			2000,00
Teacher Desk*1			250,00
Chair*1			200,00
Closed Cabinet (front glass)*2			400,00
Screen for videos*1			1000,00
Video projector*1			1500,00
Laptop with DVD player*1			1,500,00
External loudspeaker*1			500,00
SPACE			
Cutting and stitching Room			In kind contribution by host Institutions
Making and Lasting Room			
Design and Training Room			
Class Room			

Key attributes of a Model Service Centre	Existing Situation	Identified Gaps	Costing
Director's office			
Managers' offices*3			
Meeting Room			
Other			
<p>Considering the availability of the new space in MTAC compound, the actual seat of TCFC could be transformed into a stitching/closing training school for shoes and leather goods. In the present (empty) warehouse area could also find the space for warehousing materials and components, which are actually so difficult or impossible to find locally. In the new premises, if a second floor can be built, there will be sufficient space for specialized design courses and all the activities connected with the making room (for the beginning it should be advisable to start with fashionable men and ladies sandals with lower investments related to this kind of productions). The cooperation with MTAC could be particularly useful for specialized courses of company management.</p>			

Zimbabwe: Leather Institute of Zimbabwe

Even if this Center is a private one, it has some connections with the Ministry of Industry and international Trade (both in Bulawayo and Harare); they were in-fact already cooperating for preparing together a document on the leather situation in Zimbabwe (ZIM TRADE - Leather Sector Brief – June 2011).

Ms. Stable Milo is the Managing Secretary of the Institute and she has close connections with a number of private, cottage companies, who are associated in the so called Cluster. I spoke with some of them in the Institute office and later on during some company visits so that I can have an idea of their way of working, of their ambitions and their actual needs.

The table below summaries the comparison between the centre in LIZ, Zimbabwe and a model Service centre. In addition it lists the machines which are needed to improve the status of this place into a service centre, which would aid its service delivery to the SMEs.

Table 23: Zimbabwe Gaps and Inputs for Transformation

Key attributes of a Model Service Centre	Existing Situation	Identified Gaps	Costing
PERSONNEL			
Center Director	0	Recruite a technical manager and also support the salary line for the existing Administrator	72,000.00
Marketing Manager	0		Over 3 years, as it is assumed by year 4 the centre will be able to carry this budget line.
Service Manager	0		
Training Manager	0		
Administrator	1		
General Staff			
EQUIPMENT			
CUTTING AND STITCHING EQUIPMENT			
Cutting Press *1	2	To be inspected	1,000.00
Cutting Desks*2	0	Cutting Desks*2	1,300.00
Splitting Machine*1	0	Splitting Machine*1	16,950.00
Skiving machine*1	2	To be inspected	1,000.00
Folding machine*1	1	To be inspected	1,000.00
Zig-zag machine*1	2	To be inspected	1,000.00
Flat bed machines 1 needle*3	3	To be inspected	1,000.00
Post bed machines 1 needle*3	0	Post bed machines 1 needle*3	2,790.00

Key attributes of a Model Service Centre	Existing Situation	Identified Gaps	Costing
Two needles flat bed*1	1	To be inspected	500.00
Working tables 70x120 h.*3	2	OK	0.00
Eyeletting machine	1	To be inspected	1,000.00
Shelves for materials and components	Warehouse closed		
MAKING AND LASTING EQUIPMENT			
Toe top application machine (2 places*1	0	Toe top application machine (2 places*1	2,945.00
Back part moulding machine (2 places*1	0	Back part moulding machine (2 places*1	9,500.00
Lasting pin for insole application*1	0	Lasting pin for insole application*1	350.00
Toe lasting machine (thermoplastic with vaporizer)*1	0	Toe lasting machine (thermoplastic with vaporizer)*1	44,845.00
Back lasting machine with vaporizer*1	0	Back lasting machine with vaporizer*1	53,995.00
Roughing machine with aspirator*1	0	Roughing machine with aspirator*1	2,580.00
Brushing machine with speed regulator*1	0	Brushing machine with speed regulator*1	2,850.00
Heel nailing machine (pneumatic)*1	0	Heel nailing machine (pneumatic)*1	11,850.00
Sole pressing machine (2 places)*1	0	Sole pressing machine (2 places)*1	16,980.00
Glue reactivation machine*1	0	Glue reactivation machine*1	4,850.00
Compressor 500 lt.*1	0	Compressor 500 lt.*1	7,100.00
Table for glue application with aspirator	0	Table for glue application with aspirator	500,00
Working table 70x120*2	0	Working table 70x120*2	1000,00
Trolleys for last and uppers moving*3	0	Trolleys for last and uppers moving*3	3,510.00
DESIGN AND TRAINING EQUIPMENT			
Tables for pattern making/design*12	0	Tables for pattern making/design*12	7,800.00
Tools*12	0	Tools*12	600,00
Teacher desk*1	0	Teacher desk*1	250,00
Chair*1	0	Chair*1	200,00
Manual pantograph*1	0	Manual pantograph*1	2,100.00
Shelves for last and components*6	0	Shelves for last and components*6	1,500.00
Metal horse for leather*1	0	Metal horse for leather*1	1,500.00
shank board pallets*2	0	shank board pallets*2	1,500.00
Blackboard*1	0	Blackboard*1	500,00
CLASS ROOM EQUIPMENT			
Tables*10			1000,00
Chairs*20			2000,00
Teacher Desk*1			250.00
Chair*1			200,00
Closed Cabinet (front glass)*2			400.00
Screen for videos*1			1000,00
Video projector*1			1500,00
Laptop with DVD player*1			1,500,00
External loudspeaker*1			500,00
SPACE			
Cutting and stitching Room			In kind
Making and Lasting Room			contribution by

Key attributes of a Model Service Centre	Existing Situation	Identified Gaps	Costing
Design and Training Room			host Institutions
Class Room			
Director's office			
Managers' offices*3			
Meeting Room			
Other			
<p>After the setting up of the training room and the implementation of courses for the closing step (stitching) other courses were asked to donors (stitching and pattern making) without any success. The training room for he stitching phase is quite comfortable even if all the machines need spare parts and/or mechanical adjustments. With small investment regarding tools and specialized maintenance, this space could be ready to host specialized stitching training courses and, in order to get some resources, the same equipments could be used to produce uppers for the Center's customers. The research of materials and components for the local companies could be another service and source of income for the Center. Other two rooms available in the premises could be used for pattern making courses where young designers together with a manual pantograph could enable the Center for a pattern grading activity actually not existing locally.</p>			

Summary of Cost for Transformation the Centres

The table below summaries the costs for transforming the existing centres into ideally Service Centres. The new investment needed per each varies depending on the situation currently obtaining. With the highest invest expected in Uganda, followed by Burundi and Kenya has the list amount of investment required.

Centre	Personnel	Cutting & Stitching Equip.	Making and Lasting Equip.	Design & Training	Class room Equip	Revolving Fund	Total
Burundi	72,000.00	43,975.00	162,855.00	15,950.00	8,350.00	300,000.00	603,130.00
Kenya	54,000.00	7,820.00	59,090.00	13,850.00	8,350.00	300,000.00	443,110.00
Uganda	72,000.00	39,950.00	162,855.00	15,950.00	24,300.00	300,000.00	615,055.00
Rwanda	54,000.00	15,495.00	119,645.00	2,450.00	4,850.00	300,000.00	496,440.00
Zimbabwe	72,000.00	27,540.00	162,855.00	15,950.00	8,350.00	300,000.00	586,695.00
Total	324,000.00	134,780.00	667,300.00	64,150.00	54,200.00	1,500,000.00	2,744,430.00

Conclusion

This chapter has illustrated an ideal Service Centre, identified gaps in existing centre and listed the investments, which are required to transform them into service centres. The next chapter articulate the potential impact, sustainability of the proposed model and the economic viability of the proposed intervention.

CHAPTER 4 : POTENTIAL IMPACT OF THE PROPOSED TRANSFORMATIONS

Introduction

This chapter looks at potential impact, sustainability and the economic/financial viability of the proposed intervention. The previous projects, which have been implemented in Africa on the leather value chain, have taken the traditional approach of implementing a project, which negates the role of the stakeholders on Public and Private, and also to supply and demand side. In addition no sustainability models have been built in such projects, development partners finance, were seen as donations, rather than seed capital that should be nurtured and grown, and used to finance other potential project beneficiaries. Finally no efforts were placed on appraising the economic and financial benefits of such interventions. The proposed intervention brings a change with regard to the issues, which have been alluded to above, and details are elaborated in the following sections.

Potential Impact Estimate

The projected impact of the intervention, would see gross earnings of the SMEs growing from €5,4 million in year one to €15,1 million in year three, this will be accompanied by creation of 312 and 417 jobs in year two and three respectively. The given figures indicate minimum growth indicators, however it is expected that the growth could expand beyond the stated figures. See table below for details.

Table 24: Estimated Impact

Year	No of SMEs	Pairs per day	Total number of Pairs	Total Revenue	Number of Jobs created
One	250	5	300,000.00	5,400,000.00	250
Two	312.5	7	525,000.00	9,450,000.00	312
Three	437.5	8	840,000.00	15,120,000.00	437
Total Rev.					999

Source: COMESA/LLPI computations

Revolving Fund and Sustainability Model

The sustainability of the proposed model is based on the fact that the Revolving Fund would be used to purchase inputs in bulk, thus addressing two challenges SMEs are facing: of working capital and access to stable supply of suitable inputs. The SMEs would get inputs on credit, with administrative charge (mark up) of 5% on the value of raw material bought on credit. Secondly the SMEs will be charged €0.73 per pair produced using the facilities at the Service Centre. Thus there will be two source of income flow.

Service Charge for Using Facilities at the Service Centre

The SMEs will use the equipment, which will be located in one premise and they will be charged for machine usage, at US\$1 (€0.73) per pair, this money will form a common pool of funds, which will be used to retire the loan. In the 5 proposed

countries, the project is targeting 250 SMEs, with an average output per day of 5 pairs of shoes. Thus USD1,250 (€912) would be generated per day, which translates to USD25,000 (€18,250) per month and USD300,000 (€219,000) per annum in the first year. This figure will be expected to grow annually as the output per day per SME would grow with experience and mentoring. The SMEs will be linked with formal retail outlets, Government Agencies and other institutions as markets. Producing under one roof, would improve the monitoring and recovery of the loan. The estimated income earnings of the service centre based on charging on the use of the Service Centre facilities, is summarized in the Table below:

Table 25: Potential Revenue from Service Charge

Year	No of SMEs	Pairs per day	Revenue per annum based on the 0.73 Euro charge per pair	Increase of SMEs by 25% in Yr 2 & 3	Total
One	250	5	219,000.00	-	219,000.00
Two	250	7	306,600.00	54,750.00	361,350.00
Three	250	8	350,400.00	164,250.00	514,650.00
Total Rev.			876,000.00	219,000.00	1,095,000.00

COMESA/LLPI computations

The earnings, generated would be used to service the machines, expand the activities of the Service Centre, support capacity building activities for more SMEs, who will be planning to join the Service Centre. Ideally in the second year the service centres are expected to increase the number of SMES by 50%, and by 100% in the third year. The Service Centre would be expected to operate 24 hours.

Common Raw material Purchase

Raw materials will be purchased in bulk and will be stored, SMEs, will draw on a weekly basis, and will be charged a 5% interest. The purchase in bulk will reduce the cost of materials, which will then allow the SMEs to pay an extra 5% on the raw materials used. This business model, will continue beyond the project cycle, and the generated money would be used to capitalize the SMEs and also to support the establishment of new clusters across the given countries.

Table 26: Revenue from the Revolving Fund

Year	No of SMEs	Pairs per day	Total number of Pairs	Total Material inputs Cost	Revenue from 5% Mark up
One	250	5	300,000.00	2,628,000.00	131,400.00
Two	312.5	7	525,000.00	4,599,000.00	229,950.00
Three	437.5	8	840,000.00	7,358,400.00	367,920.00
Total Rev.					729,270.00

COMESA/LLPI computations

Cummulatively the Service Centre would earn €1,824,270 in three years. The revenue generation from the service charge alone, would ensure the sustainability of the activities, and resources from this maybe used to set up other clusters in other parts of the country. This is a complete departure from the past projects, which have been implemented in the region.

Conclusion

It is clear that the proposed model would transform the performance of the SMEs and this model can be upscaled or replicated in other countries in the COMESA region. In addition this model introduce the sustainability framework, which has been completely absent in most of the past projects, which have just assumed that the sustainability would involve the national government continuing with the project after the exit of the developmet partners. Most projects have closed as soon as the project cycle came to an end.

Annexes

Annex 1: Report by Alfredo Martineli