



RWANDA LEATHER VALUE CHAIN
COMPREHENSIVE STRATEGIC FRAMEWORK
(2015-2024)

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COMESA
Leather and Leather Products Institute
(COMESA/LLPI)



**RWANDA LEATHER VALUE CHAIN COMPREHENSIVE STRATEGIC
FRAMEWORK
2015 to 2024**

VISION

“To be a Globally Competitive Leather Value Chain”

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Needless to say but still, it would remain the responsibility of the COMESA/LLPI for any erroneous, if any but none, message of the paper.

STATEMENT BY THE HONOURABLE MINISTER OF MINICOM (*to be inserted by the Ministry of Industry and Commerce*)

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LIST OF ACRONYMS

| | |
|-------------|---|
| COMESA/LLPI | Common Market for Eastern and Southern Africa, Leather and Leather Products Institute |
| COMESA | Common Market for Eastern and Southern Africa |
| EAC | East African Community |
| EDPRS | Economic Development and Poverty Reduction Strategy |
| F.O.B | Free On Board |
| GDP | Gross Domestic Product |
| HS | Harmonized System |
| LLDC | Land-Locked Least Developed Country |
| LLPI | Leather and Leather Products Institute |
| MINCOM | Ministry of Trade and Industry |
| PA | Per Annum |
| RCA | Revealed Comparative Advantage |
| SMEs | Small and Medium Enterprises |

EXECUTIVE SUMMARY

Rwanda has made tremendous strides in improving the performance of its economy and the living standards of its people. Its global ranking as a competitive economy has improved significantly over the past ten years. Despite the rapid improvement, the contribution of the Manufacturing Sector is still very small, the Service and Agriculture Sectors are the two leading contributors to GDP. The development of the Leather Value Chain presents an opportunity for her to improve the performance of its Industrial Sector by supporting activities, which are aimed at improving value addition. In 2012, Rwanda exported raw hides and skins, valued at US\$ 12 million. The conversion of these raw hides and skins into finished leather products can generate approximately US\$ 130 million as direct earnings. This would definitely stimulate economic activity in the service sector and in the production of accessories, which are needed in the production of leather products.

The current situation obtaining in Rwanda is of a leather value chain, whose entry into the global value chain is at the primary stage of exporting raw hides and skins, thus potential earnings, which could have been raised through value addition, amounting to US\$118 million, are forgone. It is important to note that the export of raw hides and skins is very important to the Rwandese economy, as its income earnings is among the top ten. Furthermore the export of raw hides and skins are in the top ten for Rwanda with regard to competitiveness and specialization indices such as the Lafay and the Revealed Comparative Advantage respectively.

It was observed that although the quality of raw hides and skins are good, the absence of an operational tannery has created a gap, which has forced the SMEs involved in the production of footwear to depend on imports of finished leather, consequently raising their costs of production. Beyond unstable supplies of finished leather and other accessories, the SMEs face a plethora of challenges, ranging from: operating in poor environment and lack of technical and entrepreneurial skills, among others.

The current strategy's Vision, Mission and Objective are:

The Vision: “To be globally competitive leather value chain”

The Mission: “Transform the Rwandese leather value chain from export of raw hides and skins to production and export of value added products”

The objectives are:

- Improve the quality and collection of hides and skins;
- Support the development and growth of SMEs who are involved in the production leather footwear and goods;
- Set up an Industrial Park for the leather sector; and
- Improve institutional, policy and financial support and market intelligence.

The above Vision, Mission and Objectives are galvanized by measurable Market and Growth targets, which are measurable. This is imperative, as it gives a guideline to measure the impact of a cocktail of interventions and activities, which are proposed under each specific objective.

The implementation methodology of this strategy is holistic, whereby the Ministry of Industry of and Industry plays a central role in spearheading its implementation in collaboration with a host of Stakeholders, which are listed under each objective and sub objective.

The future of the Rwanda Leather Value Chain looks bright!

CHAPTER I: CONTEXT SETTING

1. Introduction

This Chapter presents the context in which the Rwanda leather value chain operates. It summarizes the economic situation in Rwanda; the global and regional importance of the leather value chain; the strategic fit of the proposed strategy in line with Rwanda's overall development goals and other relevant policies, such as industry and trade policies.

1.1. Country Context

Rwanda is classified as a 'Land-Locked Least Developed Country' (LLDC) with a per capita GDP of around US\$ 541 (2009) and a total estimated population of 10.3 million (2010). Rwanda's Human Development Index ranks it 152 out of a total of 169 countries (2010). The country has one of the highest population densities on the African Continent.

Rwanda has a clearly defined set of national development goals and targets. Under the Vision 2020's umbrella, the Government's medium-term plan is stated in the country's Economic Development and Poverty Reduction Strategy (EDPRS) 2008-2012 with a strong emphasis on private sector development; agribusiness; energy and other infrastructure; science and technology; as well as the environment. Despite strong performance in economic growth, the country's share of manufacturing remains unchanged at around 13.9% of GDP. Thus the crafting and implementing of policies, which promote value addition, are fundamental in unlocking the value inherent in the Rwandese economy. The Leather Value Chain of Rwanda is currently underdeveloped, with raw hides and skins as the main export product. Thus, the development of a comprehensive leather value chain strategy is a direct response to this.

1.2. Structure of the Economy and Sector Performance

The service and agriculture sectors contribute 47% and 32% to the GDP of Rwanda respectively. The industry sector contributes 13.9%; this reflects the importance of promoting value addition in the leather value chain, as this would boost its contribution to Rwanda's GDP. See details in the Table below.

Table 1: Rwanda: GDP and Broad Sectors Contribution

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 proj. | Average Contr. (%) |
|-------------|------|------|------|------|------|---------------|-----------------------|
| GDP | 3170 | 3368 | 3579 | 3846 | 4125 | 4315 | |
| Agriculture | 1053 | 1135 | 1193 | 1244 | 1277 | 1316 | 32 |
| Industry | 432 | 438 | 463 | 551 | 585 | 650 | 13.9 |
| Services | 1480 | 1573 | 1685 | 1793 | 1985 | 2057 | 47 |
| Adjustment | 203 | 222 | 238 | 258 | 278 | 292 | |
| Taxes | 209 | 222 | 238 | 258 | 278 | 292 | |

Source: Rwanda Ministry of Finance and Economic Planning: Constant Prices (billion Rwf)

1.3. The Relationship between the Leather Value Chain Strategy Other Policies and Strategies of Rwanda

Policies and strategies in any country should have a strategic relationship or a logical link with the overall development vision and aspirations of a country. Disjointed and contradictory policies normal introduces distortions and implementation challenges. Rwanda has a raft of policies and strategies that are aimed at contributing to the sustainable growth and sustainable development of the country. Given the importance of a strategic linkage, which

must exist among policies, the draft leather value chain strategy was evaluated to identify its linkages with a number of policies, namely: Vision 2020; National Industrial Policy; National Export Strategy; Rwanda Trade Policy; and Small and Medium Enterprises (SMEs) Development Policy (2010). The four Strategic Objectives are:

- Objective One: Improving the quality and collection of hides and skins;
- Objective Two: Support the development and growth of SMEs who are involved in the production leather footwear and goods;
- Objective Three: Set up an Industrial Park for the Leather Sector; and
- Objective Four: Improve Institutional, policy, financial support and market intelligence

1.3.1. National Vision and Aspirations

The vision and aspirations of the Rwandese Government is elaborated in detail in Vision 2020 document. In this document it is stated that “the Vision 2020 is a reflection of our aspiration and determination as Rwandans, to construct a united, democratic and inclusive Rwandan identity, after so many years of authoritarian and exclusivist dispensation; we aim, through this Vision, to transform our country into middle - income nation in which Rwandans are healthier, educated and generally more prosperous; the Rwanda we seek is one that is united and competitive both regionally and globally”.

Thus all policies, strategies and other engagements, must logically contribute to the attainment of the vision and aspirations summed above. The leather strategy aligns itself to the Vision’s priorities, by supporting the transformation of the leather into a competitive industry that contributes to sustainable growth through value addition. Table 2 below shows the linkages between the Vision 2020 Pillars and the strategy’s objectives.

Table 2: The Strategy Relationship with Vision 2020

| Pillars of Vision 2020 | The Relationship between Vision 2020 and the Leather Strategy | | | |
|--|---|---------------|-----------------|----------------|
| | Objective One | Objective Two | Objective Three | Objective Four |
| Good governance and a capable state | | | | X |
| Human resource development and a knowledge based economy | X | X | | |
| A private sector-led economy | X | X | X | X |
| Infrastructure development | | | | |
| Productive and market oriented agriculture | X | | | |
| Regional and international economic integration | | | | X |
| Cross Cutting: <ul style="list-style-type: none"> • Gender equality • Protection of environment and sustainable natural resource management • Science and technology, including ICT | X | X | X | X |

1.3.2. National Industrial Policy

The vision of the National Industry Policy is to create a competitive industrial and advanced services sectors producing over \$ 1.5 billion of exports by 2020, while increasing the number of off farm jobs. This policy has a strong strategic fit with the leather value chain strategy, in that the foreseen transformation of the leather value chain from production and export of raw hides and skins into production and export of finished leather products, will boost both export values and also create more off the farm jobs. Table 3 below shows the linkages between the National Industrial Policy Objectives and the Strategy’s Objectives.

Table 3: The Strategy Relationship with National Industrial Policy

| National Industrial Policy Objectives | The Relationship between National Industrial Policy and the Leather Strategy | | | |
|---|--|---------------|-----------------|----------------|
| | Objective One | Objective Two | Objective Three | Objective Four |
| Increase domestic production for local consumption | X | X | | |
| Improve Rwanda's export competitiveness | X | X | X | |
| Create an enabling environment for Rwanda's industrialization | | | X | X |

1.3.3. National Export Strategy

The vision of the National Export Strategy is to transform Rwanda into a globally competitive export economy. The Leather Value Chain Strategy's overall goal has a strong relationship with the vision of the National Export Strategy, as it seeks to transform the leather value chain into globally competitive leather value chain, producing and exporting value added products. Table 4 below shows the linkages between the National Export Strategy Pillars and the Leather Value Chain strategy's objectives

Table 4: The Strategy Relationship with the National Export Strategy

| National Export Strategy Guiding Principles | The Relationship between National Export Strategy and the Leather Strategy | | | |
|---|--|---------------|-----------------|----------------|
| | Objective One | Objective Two | Objective Three | Objective Four |
| Increase export revenues through quantity and value addition, as well as export diversification. | X | X | | |
| Create a favourable business environment that encourages the formalization of export – related industries and increases the number of export firms. | X | X | | |
| Improve the understanding of international standards, requirements, and opportunities. | X | X | X | |
| Encourage institutional and public - private coordination around key market - led export initiatives, while maintaining a flexible export strategy, based on continued monitoring and evaluation. | X | X | | X |
| Increase the export-related number of jobs, particularly with high living standards. | X | X | | |
| Improve and leverage human capital, innovation, and technology investments, including the development of competitive mindsets across key export sectors. | | X | | |
| Support broader areas of social development such as gender equality, youth development, environmental sustainability, and inclusion of vulnerable groups | | X | | X |

1.3.4. Rwanda Trade Policy

The Vision of Rwanda's Trade Policy is: Trading for Development, growing sustainable and diversified quality products and services for trading locally, regionally and internationally with the aim of creating jobs, increasing incomes and improving the living standards of Rwandans. The Leather Value Chain Strategy's Vision has a strong strategic fit with the Trade Policy, as it supports the transformation of the leather value chain into a globally competitive industry producing diversified value added leather products, which meet national, regional and international standards. Table 5 below shows the linkages between the Trade Policy Objectives and the Leather Value Chain Strategy Objectives.

Table 5: The Strategy Relationship with the Trade Policy

| Vision 2020 Objectives | The Relationship between Rwanda Trade Policy and the Leather Strategy | | | |
|--|---|---------------|-----------------|----------------|
| | Objective One | Objective Two | Objective Three | Objective Four |
| Increased productivity, competitiveness and diversified sustainable productive capacities for trading nationally, sub-regionally, regionally and internationally | X | X | | X |
| Enhanced participation of importers and exporters of goods and services in regional and international trade taking advantage of trade opportunities. Special attention would be paid to supporting women farmers and entrepreneurs as well as rural-based exporters. | | X | | |
| Increasing investment, including foreign direct investment, into production of competitive goods and services for the export market. | | | X | |
| Increased human resources skills in trade and development through training and retraining in private and public institutions. | X | X | | |
| Strengthened science, technology and innovation policies, strategies and institutions including intellectual property laws, in support of industrial development and creative knowledge-based industries. | X | | | X |

1.3.5. Small and Medium Enterprises (SMEs) Development Policy (2010)

The Vision of the SMEs Policy is to create a critical mass of viable and dynamic SMEs significantly contributing to the national economic development; and its Mission is to stimulate growth of sustainable SMEs through enhanced business support service provision, access to finance and the creation of an appropriate legal and institutional framework. The Leather Value Chain Strategy targets the transformation of SMEs into vibrant manufacturers of leather products for both domestic and international markets. Table 6 below shows the linkages between the SMEs Policy Objectives and the Leather Value Chain Strategy's Objectives.

Table 6: The Strategy Relationship with the SMEs Policy

| SME Policy 2020 Objectives | The Relationship between Small and Medium (SMEs) Enterprise Development Policy and the Leather Strategy | | | |
|--|---|---------------|-----------------|----------------|
| | Objective One | Objective Two | Objective Three | Objective Four |
| Promote a culture of entrepreneurship among Rwandans | | X | | |
| Facilitate SME access to development services including: <ul style="list-style-type: none"> • <i>Business development services</i> • <i>Access to local, regional and international markets and market information</i> • <i>Promote innovation and technological capacity of SMEs for competitiveness</i> | X | X | X | X |
| Put in place mechanisms for SMEs to access appropriate business financing | X | X | | |
| Simplify the fiscal and regulatory framework for SME growth | | | | X |
| Develop an appropriate institutional framework for SME development | | X | | X |

1.4. Importance of the Leather Value Chain

1.4.1. Global Level

The leather value chain globally is estimated at US\$ 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.

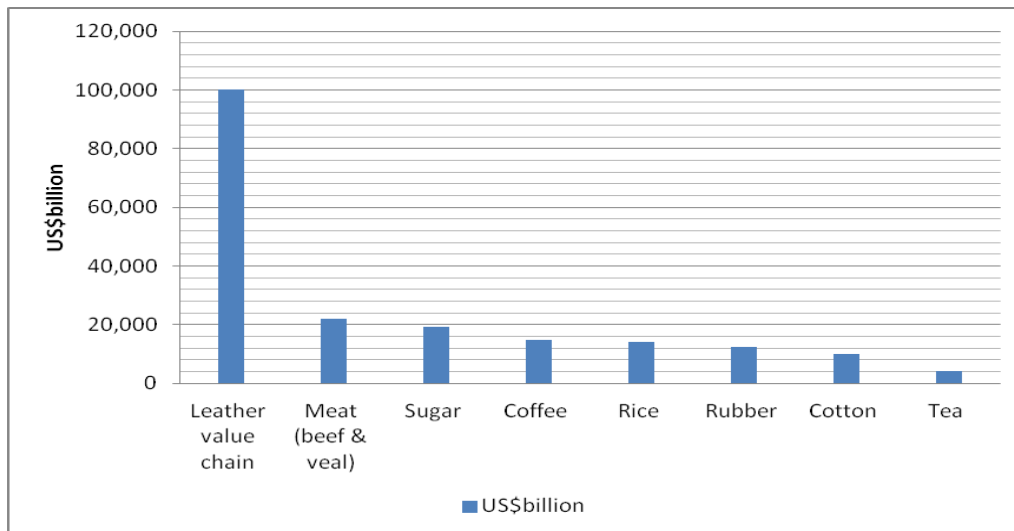


Figure 1: Global Importance of the Leather Value Chain

Source: Computed with COMESA/LLPI reports and FAO 2012

The global trade in the leather supply chain grew over the period 1993 to 2011; the growth patterns for each product category are summarized in Table 7, below. There is a clear indication that growth in trade rose, with the level of value addition. It is an indication that the COMESA region is focus in the trade in value added products.

Table 7: Global Dynamics in the Trade of the Leather Value Chain

| Product Category | Average US\$ billions) | | Growth Rate (%) |
|-----------------------------------|------------------------|--------------|-----------------|
| | 1993 to 1995 | 2009 to 2011 | |
| Raw hides and skins | 4.7 | 5.4 | 0.9 |
| Rough tanned and finished leather | 11.7 | 17.5 | 2.5 |
| Footwear with leather uppers | 22.7 | 44.9 | 4.4 |

Source: FAO (2012)

1.4.2. COMESA Situation

The COMESA region is 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 only 2%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. Figure 2 below illustrates the inverse relationship between the relative importances of COMESA region in the global value chain, as it progresses upstream. Note the illustration in Figure 2 below relates only to bovine

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

² FAO (2012)

animals and bovine leather, related lighter leather and footwear. It is however important to note that the situation illustrated Figure 2 mirrors the situation with respect to goats and sheep skins.

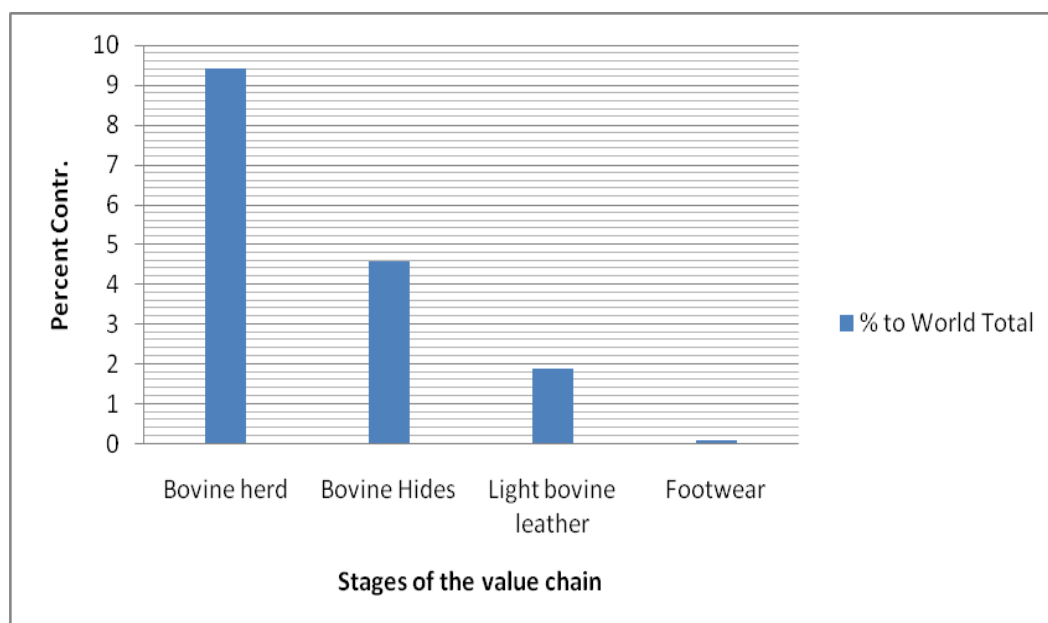


Figure 2: Importance of the COMESA Region by Leather Value Chain Segment

Source: COMESA/LLPI Computation based on FAO Data (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. Thus it is imperative 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.

1.4.3. Market Size of Footwear in the COMESA Region

The COMESA region's market size of footwear is estimated at 365 million pairs³ 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, glue and other accessories consequently creating more indirect jobs. Total output of leather footwear in the COMESA region was estimated⁴ at 80.6 and 92.3 million pairs in 2001 and 2011¹ respectively. However these figures are based on data collected from established enterprises.

In 2012, US\$ 646 million⁵ worth of shoes were imported into the COMESA region from the rest of the world and this translates⁶ 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 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. Figure 3 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.

³ Estimated from the footwear consumption per Capita of 0.85 pairs per annum in Africa

⁴ FAO Compendium of Statistics

⁵ ITC Trade Map data

⁶ Assuming that the import prices is US\$10

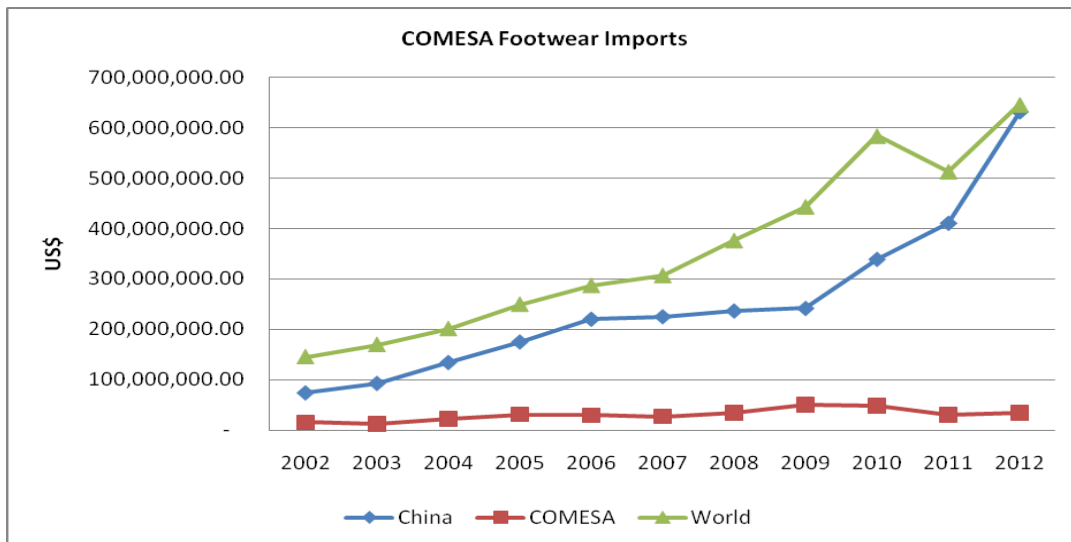


Figure 3: COMESA Imports of Footwear from China and the World

Source: COMESA/LLPI Computation based on FAO Data (2012)

1.4.4. Rwanda Situation

The hides and skins and leather industry in Rwanda play some significant role in foreign exchange earnings (more than 12 million US\$ in 2012⁷. Rwanda's livestock population is put at 1.1 million cattle, 800 thousand sheep, and 2.7 million goats⁸. Off-take (kill) rates are estimated as 8.3% for cattle, 30% for sheep, and 33% for goats⁹. The potential number of hides and skins available for marketing can be estimated at 0.10 million cattle hides, 0.15 million sheep skins and 0.5 million goat skins. Approximately 0.08 million hides, 0.098 million sheep skins and 0.32 million goat skins (a total average of more than 66%) are handled by the formal system of marketing in Rwanda. The total non-collection rate (0.02 million hides, 0.052 million sheep skins and 0.18 million goat skins) can be estimated at 33.6%.

The estimated 80 % green products entering the formal market are derived from rural areas where slaughtering is carried out without any basic amenities, which clearly indicates that the collection of raw products and timely preparation may be defective. The wide distribution of rural production cannot be effectively supervised by extension workers. The remaining 20% of hides and skins are derived from more than 388 slaughtering facilities, of which 3 are industrial abattoirs, 36 slaughter houses and 349 rural slaughter slabs.

1.5. Conclusion

This Chapter has laid the basis for generating a comprehensive understanding of the Rwanda leather value chain, by looking at the structure of the economy, the relationship of some of the policies, with objectives of the leather value chain¹⁰, global, regional and national situation of the leather value chain. The next Chapter adopts the value chain approach in order to identify the issues, through a quantitative analysis of both primary and secondary data.

⁷ ITC Trade Map

⁸ <http://www.countrystat.org/home.aspx?c=RWA&p=ke>

⁹ This is based on the annual meat production, as presented at <http://www.countrystat.org/home.aspx?c=RWA&p=ke>

¹⁰ Presented in detail in the Chapter dealing with the Strategy

CHAPTER II: SITUATIONAL ANALYSIS OF THE VALUE CHAIN

2. Introduction

This Chapter presents the situation currently obtaining in the Rwandese leather value chain. It elaborates the following issues: industry structure and value chain map; potential of the leather value chain; opportunities forgone due to the exporting of raw hides and skins; income distribution in the marketing of bovine hides; trade performance; situational analysis of SMEs in the footwear manufacturing subsector and a regional competitive comparative analysis. This analysis builds a firm base, which is complimented by the issues and proposed interventions, which were identified and prioritized during a two-days stakeholders meeting that was held in Kigali, Rwanda, in March 2014.

2.1. Industry Structure and Value Chain Map

According to Kaplinsky and Morris (2000), mapping the range of activities in a value chain provides the capacity to decompose total value chain earnings into the rewards which are achieved by different parties in the chain. The Rwandese leather value is made up of livestock farming, livestock traders, butcheries, slaughter facilities owners, hides and skins traders and exporters and artisanal footwear and leather goods manufacturing. Thus there is a missing link between production of hides and skins and production of leather goods, as there are no tanneries, which are operational. The schematic presentation of the leather value chain in Rwanda is illustrated in the Figure below:

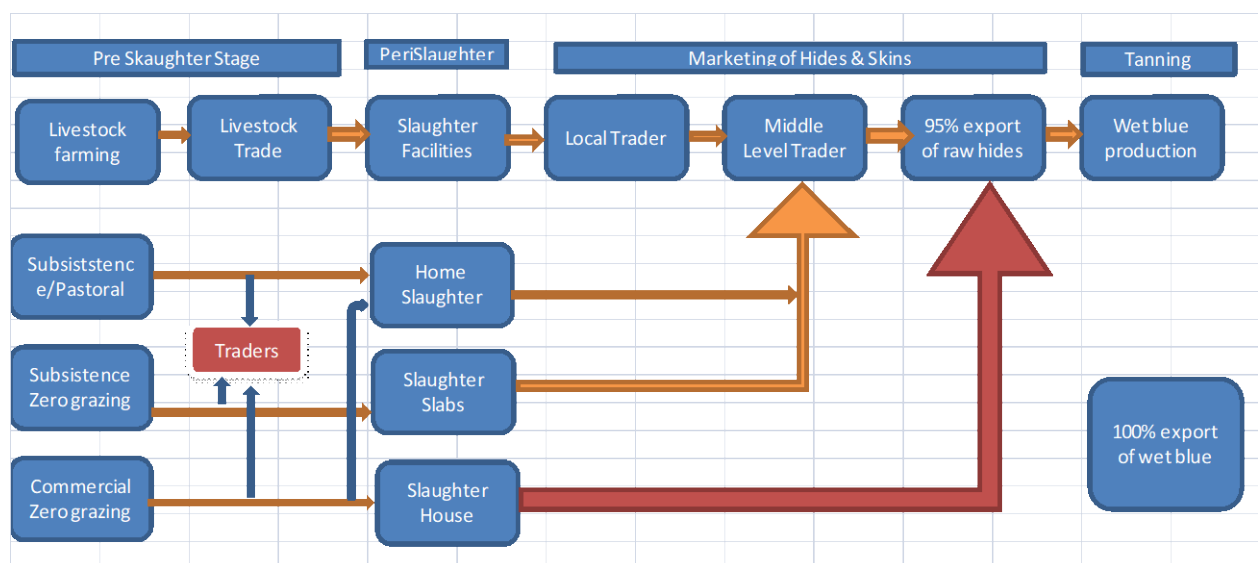


Figure 4: Rwanda Hides and Skins Supply

Source: Designed by COMESA/LLPI after Stakeholder Consultation Workshop

According to stakeholders, who participated in the consultation workshop, a significant proportion of livestock in Rwanda is reared by Subsistence Farmers under a zero grazing scheme. The zero grazing scheme and government extension services has contributed to a reduction of pre slaughter defects, which are associated with diseases, tick bites and also scratches, which are common in pastoral areas.

In the Rwanda leather value chain the hides and skins become important at the point of slaughter and are used either as slaughter fee or sold to the owner of the slaughter house or facility, who in turn sells to hides and skins merchants. Depending with his/her volume of hides and skins he can export directly or sell to hides and skins exporters. Hides and skins exporter's played a significant role, through advance payment to slaughter houses of hides

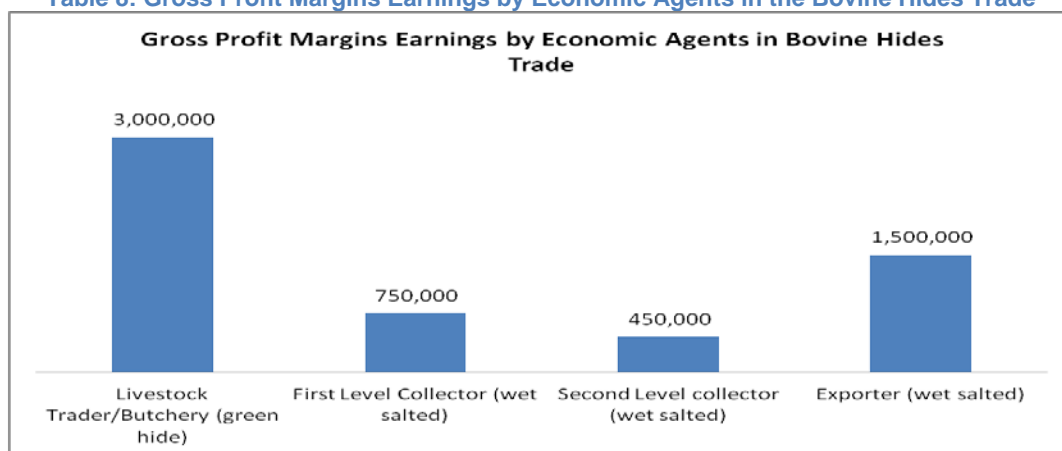
and skins middle level trader, who in turn also use the same resources to pay slaughter facilities or butchery owners in advance. This has become a source of interest free loan and has made hides/skins the most important source of liquidity, as they are bought before they are produced, unlike meat, which is only paid for, when it is brought to the meat or butchery store.

2.2. Income Distribution in the Marketing of Bovine Hides

Understanding the distribution of income along the value chain is important, as it has a bearing in ensuring sustainability in its performance with regard to the production of quality hides and their proper preservation and also efficient collection. Skewed distribution of income, which fails to offer a fair return of investment or contribution by any agent along the value chain would result in the production of poor quality hides, poor preservation as collectors tries to economize in the use of salt, low collection, as hides produced far away from the collection centre maybe dumped, once the return on their sale, does not compensate for the transport cost.

It is also fundamental to note that the distribution of income along the value chain is influenced by the level of barriers of entry, which limit competitive pressures. In the case of Rwanda, slaughter house owners who have tried to export hides and skins directly have failed to penetrate the market and have now been forced to export through agents, which are owned by foreign owners, who are part of the hides and skins global network. The greater the barriers of entry, the higher the level of profitability. A simulation of the amount earned at each level of the level value chain the moment the carcass is separated with the hides is illustrated in Figure 8.

Table 8: Gross Profit Margins Earnings by Economic Agents in the Bovine Hides Trade



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

Livestock traders/butchery owners command the highest gross margin earnings, because when they purchase livestock, the payment price excludes the fifth quarter¹¹; thus they do not pay for it. Once the animal is flayed they sell the hides in the green state, before incurring cost. See the details in the income distribution in Figure 8 above.

2.4 The Potential of the Rwandese Leather Value Chain

The export of raw hides and skins, wet blue and crust leather entails forgone opportunities with regard to value addition, which could have been attained in the region. Put simply, the

¹¹ 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.

export of raw hides means the exportation of jobs, foreign currency earning opportunities and other indirect benefits, which could have been generated in the economy, such as increased consumption of water, electricity, transport and other industry support services. In this Chapter only direct losses are computed, as the partial equilibrium approach was used, and does not take into account indirect and other feedback outcomes.

Two tanneries, which were operating in Rwanda were closed, all the hides and skins, which are collected are exported in raw state. The potential income losses incurred because of exporting raw hides and skins are estimated at the various stages of the value chain. The total summation of losses at every stage yields the cumulative loss of exporting raw hides and skins instead of finished leather, since Rwanda is not processing its hides and skins beyond wet salting.

Rwanda at least could easily double its export value by processing all hides and skins into wet blue. Growth in earnings associated with improved in value addition are illustrated in Table 9 below, figures for 2014 are the latest. The operationalisation of a new tannery under construction would enhance Rwanda's export earning to above US\$ 30 million, from the current value of US\$ 14 million. Where it would take approximately 4 to 5 years for the new tannery to move into the production of finished leather, an opportunity exist for an independent investor to set up a small finishing plant, and source wet blue from the tannery under construction. This could be done in partnership with Government.

Based on the hides and skins export of 2014, the Rwandese leather value chain has the potential of reaching a value of US\$ 155 million, losses incurred at each stage are shown in Table 9 below. The leather value chain has the potential of exceeding the exports of tea and coffee.

Table 9: Estimated Losses Due to the Export of Raw Hides and Skins

| US\$000's | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|
| Rest of the World | 4,770 | 1,961 | 3,572 | 2,968 | 2,035 | 3,766 | 7,556 | 11,855 | 16,084 | 14,139 |
| Potential Value addition at Stages | | | | | | | | | | |
| Wet blue | 9,540 | 3,922 | 7,144 | 5,936 | 4,070 | 7,532 | 15,112 | 23,710 | 32,168 | 28,278 |
| Crust | 14,310 | 5,883 | 10,716 | 8,904 | 6,105 | 11,298 | 22,668 | 35,565 | 48,252 | 42,417 |
| Finished Leather | 19,080 | 7,844 | 14,288 | 11,872 | 8,140 | 15,064 | 30,224 | 47,420 | 64,336 | 56,556 |
| Leather goods Or Footwear | 57,240 | 23,532 | 42,864 | 35,616 | 24,420 | 45,192 | 90,672 | 142,260 | 193,008 | 169,668 |
| Lost Value through Export of Raw Hides and Skins | 52,470 | 21,571 | 39,292 | 32,648 | 22,385 | 41,426 | 83,116 | 130,405 | 176,924 | 155,529 |

Source: COMESA/LLPI Computations based on Rwanda Hides and Skins Export data

2.5 The Tanning Subsector

Leather tanning is the process of converting raw hides or skins into leather. Hides and skins have the ability to absorb tannins and other chemical substances that prevent them from decaying, make them resistant to wetting, and maintain their reparability, suppleness and durability. The surface of hides and skins contains the hair and oil glands and is known as the grain side. The flesh side of the hide or skin is much thicker and softer. The three types of hides and skins most often used in leather manufacture are from cattle, sheep, and pigs. The history of tanning in Rwanda has generally been poor, with two tanneries having been closed in the past ten years or so. Accordingly to Stakeholders who participated during the strategy formulation workshop, these tanneries were closed mainly because of their location, which had the potential of impacting negatively on human settlements and food related factories. It is therefore imperative that due consideration with respect to potential environmental hazards must be taken into account in land allocation for investors interested

in setting up a tannery. The location of the current tannery close to the river and residential areas would require that they install an efficient effluent treatment plant and also that the Environmental Management Authority must strictly monitor its operations.

A new tannery is under construction in Busigira. It is estimated that the tannery will soak 20 containers per month, which roughly translates to 56,000 hides per month, when operating at full capacity. This will give the tannery annual production of 672,000 hides. This against the limited hides and skins production capacity in Rwanda, which is summarized as follows. The potential number of hides and skins available for marketing in Rwanda can be estimated at 0.10 million cattle hides, 0.15 million sheep skins and 0.5 million goat skins. Approximately 0.08 million hides, 0.098 million sheep skins and 0.32 million goat skins (a total average of more than 66%) are handled by the formal system of marketing in Rwanda. The total non-collection rate (0.02 million hides, 0.052 million sheep skins and 0.18 million goat skins) can be estimated at 33.6 %. It is, therefore, important to note that the tannery in order to perform at full capacity needs to import raw hides and skins from other countries. Thus there will be a big shortfall between the supply and demand of hides and skins, the gap would therefore need to be covered through imports. The other issue is that the investors have given a lead time of five years for them to start producing finished leather. This creates an opportunity for other investors to set up a small tannery to focus on the production of finished leather near the wet blue factory.

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

In the production of wet blue, raw hides and skins commands 85% of input cost, with the balance shared among chemicals, water, electricity and labour. This scenario highlights the importance of raw hides and skins in the production equation of leather. Thus rapid hides and skins prices fluctuation and quality have a serious bearing on the profitability and competitiveness in the production of wet blue. A steep increase or decrease in the prices of hides and skins would impact negatively or positively on the cost of production and consequently on the gross 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. In the COMESA region the tanning sector is earning an average of 56% gross margin on average, reflecting a very high profitability potential. The Table below illustrates the costs breakdown in the production of hides and skins equivalent to 58,000-60,000sqft

Table 10: Tanning Production Function

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

Source: Stakeholders and Experts consultations by COMESA/LLPI

In Rwanda it was reported that a large proportion of hides and skins were traded at uniform price irrespective of grade category. This situation discourages quality improvement among the primary producers and collectors of hides and skins. Thus the tendency would be for

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)

hides and skins collectors to under-salt, as a measure of preserving their profit margin, however on the other hand, this would raise the tanning production cost upwards and thereby squeeze profit margins, as they process poor quality hides and skins.

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

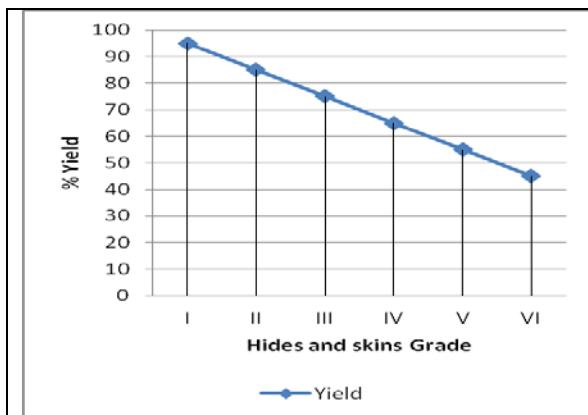


Figure 5: The Relationship between Hides/Skins Grades and Yield

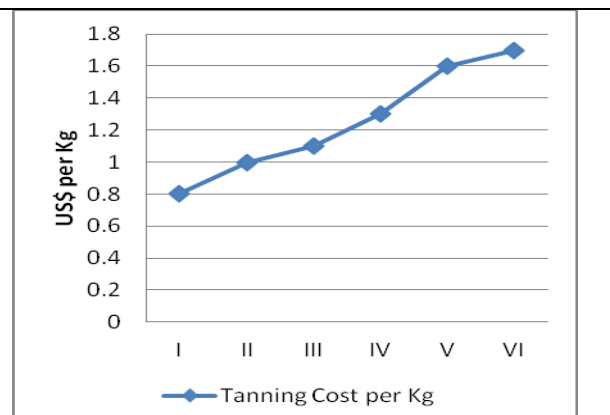


Figure 6: The Relationship between Tanning Cost and Hides and Skins Grade

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

2.3. Existing Incubation, Training and Production Facilities

2.3.1. The Community Processing Centre (CPC)

In its effort to support the development and strengthening of enterprises the MINICOM in Rwanda has adopted the setting of CPCs in various districts. A CPC to support the development of the footwear manufacturing enterprises was established in Gatsibo district which has high population of cattle and due to its strategic location between other cattle rich districts like Nyagatare and Kayonza was chosen as an ideal location for the hides and skins industry.

The government, with technical assistance from Italy, installed some 24 leather making machines in the center that encompass stitching machines, roughing machine, brushing machine with speed regulator, back part molding machine, stamping machine, skiving machine and others. The machineries will have great role to play in developing local capacity in the processing of leather into finished items like shoes. The Center in its first round

training used an Italian leather expert to train Star Leather Company artisans' on production of Footwear and Leather products was officially launched in February 2014, by H.E. Mr. Francois Kanimbe, Minister of MINICOM, Rwanda.

The Star Leather Company will manage the center and will go on and train other leather artisans to help create a more skillful population. This intervention will help to address some of the key challenges that SMEs in the footwear and leather goods industry are currently facing in Rwanda that is lack of suitable operational premises, machinery, access to finance, technical and Government support. The CPC approach should be replicated in other districts, as it is seen a panacea of addressing the plethora of challenges the SMEs in footwear and leather goods sector are facing in Rwanda. Proposed interventions to further strengthen the CPC are found in the strategy section.

Table 11: Stakeholders Investment and Interest

| Stakeholders | Stake/Investment (the information should be provided by the Ministry) | Interest | Comment |
|------------------------------------|--|--|---|
| Board of Directors | | <ul style="list-style-type: none"> The existing business plan was not based on realistic projections due to lack of expertise in leather production. It has made it difficult for the BoD to have a reference point to support the management of the CPC; It was also reported that the BoD was weak and ineffective, because of overriding stakeholders interests Needs to clarify the business model suitable for all stakeholders Needs an expert who understands the business model and brings expertise in supporting the CPC production wise | There is a need to come up with an agreement on the way forward, which should be signed by all the stakeholders. This would empower the management of the CPC to focus on attaining the agreed targets. |
| MINICOM | | <ul style="list-style-type: none"> Capacity building of SMEs Purchase inputs such as finished leather for onward selling to SMEs | |
| BDF | \$252,000 of which 70% has been disbursed. Money used in working capital and purchase of some equipment (office equipment, tools, ...) | <ul style="list-style-type: none"> Wants the CPC to focus on footwear production, in order to optimize on profitability Wants to work with artisans association provided that it adds value to the profitability of the CPC Wants ownership from artisans to take over by the time of exit after 5 years | |
| National Employment Program (NEP) | | Wants the centre to create more jobs, despite its limited capacity and resources | |
| Association of Artisans | | <ul style="list-style-type: none"> Skills training Clarify the shareholding issue; CPC import leather and other accessories and sell to them at cost plus a small margin | |
| Expert | | <ul style="list-style-type: none"> His interest was not clearly articulated, however it was felt that he was also causing a bit of discord in the operation of the CPC. | |

2.3.1.1. SWOT Analysis of the CPC

During the validation meeting COMESA/LLPI was requested to evaluate the CPC and share their insights on how the CPC can be improved. The discussions, which ensued led to the following SWOT analysis:

Table 12: Gatsibo CPC SWOT Analysis

| Strengths | Weaknesses |
|--|--|
| <ul style="list-style-type: none"> • High level political support • Technical support from Italy and JICA • Preferential funding base through the Government Financing agency | <ul style="list-style-type: none"> • Absence of a business plan impacting negatively on the overall operation of the CPC • Varied and divergent views on the focus of the CPC among the key stakeholders; • Underdeveloped production system; • Underdeveloped procurement and marketing system; • Inadequate supplies of leather and other accessories in the local market |
| Opportunities | Threats |
| <ul style="list-style-type: none"> • Rising demand of off footwear in the domestic and regional markets; • Strategic linkages with LLPI can facilitate the procurement of leather from Ethiopia; • Potential to penetrate the government market | <ul style="list-style-type: none"> • Competing interests may hamper the growth of the enterprise; • Increased imports of new and second hand cheaper imports; |

From the above SWOT analysis, it is clear that the CPC has strong political and government support; however there are more weaknesses and threats that need to be addressed. This can be accomplished by designing a business plan, which will be signed by all the key stakeholders. This would empower the management to focus on clearly defined goals and target.

2.3.2. Masaka Incubation Centre

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 13: Gap Analysis for Masaka Incubation Centre

| Key attributes of a Model Service Centre | Existing Situation | Identified Gaps | Costing |
|---|---------------------------|---|---|
| PERSONNEL | | | |
| Center Director | | Technical Manager, as the Centre has administrative and marketing support from Rwanda Development Agency. 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 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 |

| Key attributes of a Model Service Centre | Existing Situation | Identified Gaps | Costing |
|--|--------------------|---|---|
| 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 |
| 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 | | | |

| Key attributes of a Model Service Centre | Existing Situation | Identified Gaps | Costing |
|--|--------------------|-----------------|---------|
| <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> | | | |

2.4. Trade Analysis

2.4.1. Exports of Articles of Harmonized System (Chapter 41)

Chapter 41 of the Harmonized System is made up of raw hides and skins, semi processed and finished leather. Rwanda's exports value of products of Chapter 41 was on an upward trend since 2001, however, it's difficult to explain the steep growth after 2009, when the tanning sector was underperforming and was approaching closure. Wet blue, which is partly processed hides and skins, on average fetches threefold the price of raw hides and skins; thus it would have been expected that Rwanda should have earned more from exports during the pre-closure of tanneries.

Rwanda's exports of raw hides and skins into the region grew fast post 2009. This is a positive development in line with the regional integration agenda under COMESA and EAC of promoting intra trade. Exports rose from US\$ 0.2 million in 2008 to US\$ 8, 6 million in 2012; this could be explained by the growth in tanning capacity in Kenya and Uganda. For instance the number of tanneries has grown from two to seven in Uganda after the imposition of an export tax. In Kenya the export value of chapters 41 has grown from US\$ 10.6 million in 2003 to US\$ 116 million after the imposition on an export tax of raw hides and skins. See Figure 5 below, illustrating hides and skins export trend.

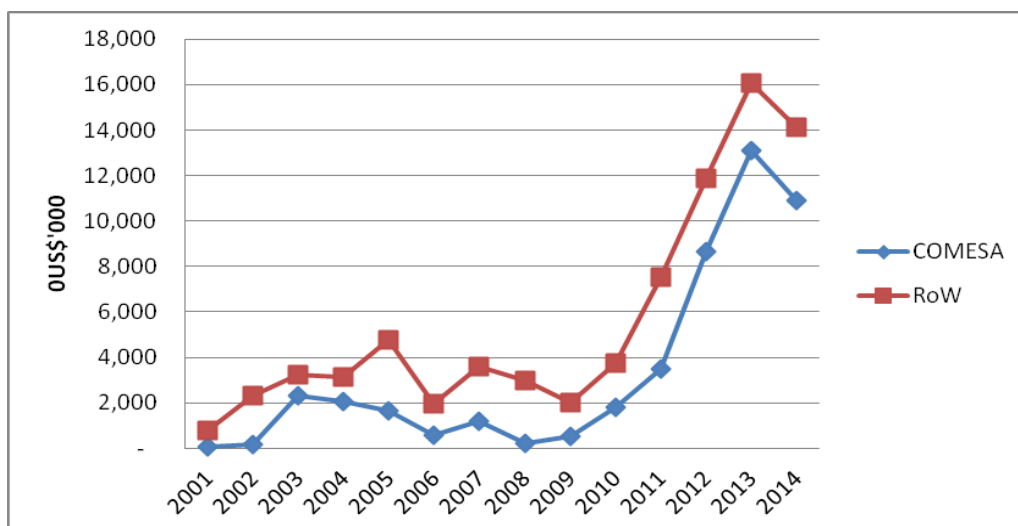


Figure 7: Hides and Skins Export

The relative importance of exports of articles of Chapter 41 was at its peak in 2003, as it reached 6.2% of the total export basket; however it declined rapidly to below 1% in 2009. This development could be explained by the problems, which have impacted this sector over

the past years and also growth in the exports from other sectors. It is currently on an upward trend and was around 2013; however this upward trend is not sustainable, without value addition. The new tannery under construction would have to compete with the export of raw hides and skins market, which is the current liberal policy, is not revised.

2.4.2. Imports of Finished Leather and Footwear

Rwanda has no operational tannery, and the manufacture of footwear is dominated by SMEs, who depend on both formal and informal imports of leather from Uganda and Kenya, except for 2006, when non COMESA imports were above US\$50,000. The recorded imports of finished leather have been under US\$10, 000, from 2001 to 2009, which is a reflection of low formal activity in the production of leather footwear and goods. Imports of finished leather rose to US\$ 80,000 in 2012, as shown in Figure 9.

In 2009 there was a spike in the importation of finished leather; this could be explained by an improved formalization in the imports of leather, as SMEs have grown over the years. The growth path was maintained in 2012, and with the positive signs in the performance of the SMEs and Government support, imports of finished leather are likely to continue on an upward path until Rwanda starts processing its raw hides and skins into finished leather.

The rising imports of finished leather is a positive indicator of growing demand for finished leather, which is a signal for the need to support the production of finished leather in Rwanda. See the Figure 4 below illustrating the growth in the importation of finished leather and footwear by Rwanda.

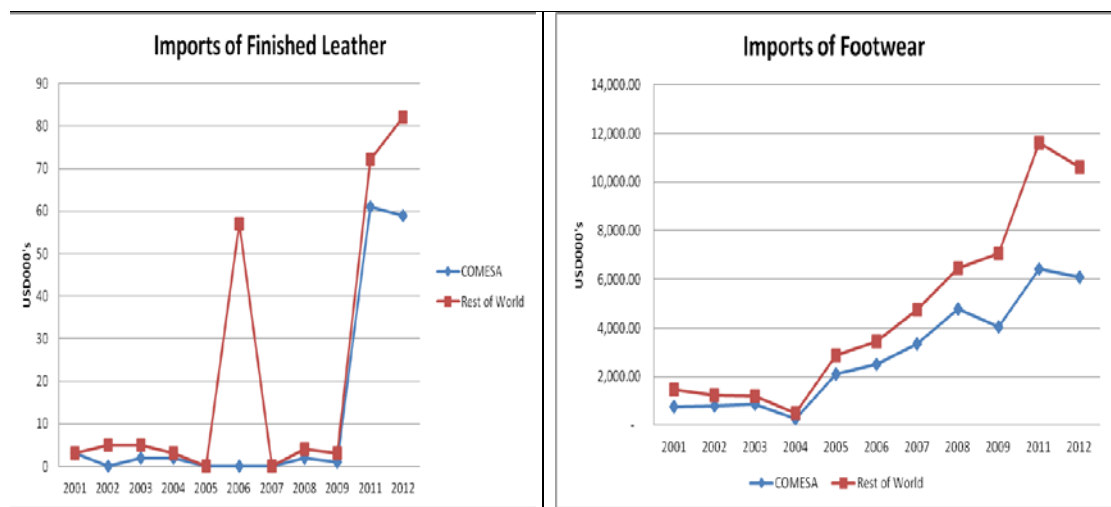


Figure 8: Imports of leather and footwear

Source: COMESA/LLPI Computation based on Trade Map Data (2012)

The production of footwear in Rwanda is dominated by SMEs in Rwanda who operate in backyards and markets in and around major towns. With a young and growing population of over 10 million, Rwanda’s annual footwear demand should be around 7 to 8.5 million pairs. The shortfall between domestic production and demand have contributed to the rapid expansion in the importation of footwear from below US\$ 2 million in 2004 to approximately US\$ 12 million in 2012. Imports from COMESA region have contributed a significant chunk to total footwear imports; however given low production levels in neighbouring countries, these imports may not be of COMESA origin. For example, Kenya has a negative balance with regard to its footwear exports and imports of US\$109 million.

2.5. Footwear Production Subsector

2.5.1. Footwear Supply Chain and the Gaps in the Rwandese Value Chain

SMEs involved in footwear manufacturing in Rwanda face a challenge in procuring the components listed in Table 14 below, which are essential in footwear manufacturing. The importance of each component and the situation in Rwanda is summarized in the Table. The absence of local production and a weak dealership and distribution network in supplying the listed inputs in Rwanda raise the transaction costs of SMEs who are involved in footwear manufacturing, as they have to transverse the City to purchase these items.

Table 14: Summary of Rwanda's Footwear Supply Chain

| INPUTS | IMPORTANCE | SITUATION IN RWANDA |
|------------------|--|--|
| Finished leather | It contributes 50% in terms of value to footwear with leather uppers, thus this is the main input. | No production of finished leather in Rwanda's SMEs depend on imports from Kenya and Uganda, which are imported at 0% duty under the COMESA FTA and EAC. The other potential source of finished leather is Ethiopia; however there is a duty of 22.5%, as Ethiopia has not yet implemented the COMESA FTA. The other challenge is that most SMEs make small informal imports, which are costly in terms of time; spend time travelling to Kenya or Uganda and also the low quality they purchase in the markets of these foreign countries. |
| Cutting dies | It's a tool, which is used for cutting; it is very important in ensuring speed in cutting and also ensures consistency. | There is no local production in Rwanda, however not critical at the moment as most of SMEs who are operating, do not have cutting machines, and use cutting knives. |
| Lasts/Heels | A last is a mechanical form/mould that has a shape similar to that of a human foot. Without a last footwear manufacturing is next to impossible | No local production in Rwanda; SMEs depend on secondary imports from Kenya. In order to produce comfortable shoes, these lasts' shape and dimension should reflect the average foot shape in a country. Most lasts, which are emanating from China, are meant for the shape and foot size of Chinese, when used in the region, the outcome is an uncomfortable shoe. |
| Heels/soles | Second important component of a shoe after leather. | No local production in Rwanda; SMEs depend on imports from Kenya and Uganda. Some of the imports are secondary, emanating from the Far East. |
| Accessories | Important especially for finishing sandals and other types of footwear. (rivets and buckles) | No local production in Rwanda |

Source: COMESA/LLPI Assessment

According to information obtained from SMEs in Rwanda leather takes 53% to 60% of total cost in the manufacturing of men's and back to school shoes respectively. Thus, any wastage or poor utilization of leather will have considerable effect on the profit margin and variations in the cost of production and have considerable influence on the competitiveness of the SMEs in the market. The second cost centre is soles, which takes an average of 15%; however this is in sharp contrast with sandals, where it contributes 60%. These two important inputs which cumulatively contribute 70 to 75% of the cost in footwear manufacturing are not produced in Rwanda and SMEs depend on middle men and informal imports. The supply chain of these inputs should be stable in order to allow the SMEs to produce, without stoppages. Thus a mechanism should be found in the short term to ensure consistent supply of leather and soles of good quality. The challenges associated with the supply of inputs in the manufacture of footwear, has resulted in Rwandese SMEs producing a pair of back to school at two fold the cost it is produced in Kenya. In Kenya it costs US\$ 7.08 to make a back to school shoe.

Table 15: Cost of Production of Footwear

| Type of Shoes | Leather cost per pair of shoe in US\$ | | | Accessories cost per pair of shoe in US\$ | | | | | Total cost (\$US) |
|----------------|---------------------------------------|----------------|--------------|---|------------|-----------|-----------|-------------|-------------------|
| | Leather per pair (in sqft) | Price per sqft | Leather Cost | Sole | Insole | S hanks | Glue | *Others | |
| Men's Shoes | 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 |
| Back to School | 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 |
| Sandals | 1.3 | 1.73 | 2.25(39.9) | 2.68(47.3) | - | 0.39(6.9) | 0.35(6.2) | 5.67 | 1.3 |

*: Toe Puff front, Back counter, Shoelaces, Eyelets, Machine Thread, Sock Lining, Polish and color. Figures within brackets show percentage of the total cost
COMESA/LLLPI SME Survey (2014)

2.5.2. Gross Margins of SMEs per Pair of Footwear

The viability of a business enterprise depends, among other, by its ability to earn a gross margin that could yield enough cash for raw materials purchase, payment of employees and all expenses. Any business that is unable to earn more cash than it consumes will eventually close down. 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. A minimum gross margin of 30% is generally considered viable. The gross margins of SMEs producing footwear in Rwanda are too exaggerated, which is a reflection of over pricing, or that most SMEs are operating below the breakeven point. If the latter is the case high gross margins are meant to cover the fixed costs of business. This is an area requiring further investigation, as overpricing could drive them out of the market, as consumers would opt to purchase cheaper imports. See details in Table 16 below.

Table 16: Gross Margins per Pair

| Country | Shoe type | Production cost per unit (US\$) | Ex factory Price per Unit (US\$) | Gross Profit per Unit (US\$) | Gross Margin (%) |
|---------|-------------|---------------------------------|----------------------------------|------------------------------|------------------|
| Rwanda | Men Shoe | 13.23 | 45 | 31.77 | 240.14 |
| | School shoe | 13.03 | | | |
| | Sandals | 8.51 | 12.0 | 3.49 | 41.01 |

COMESA/LLLPI SME Survey (2014)

2.5.3. Ranking of Constraints by SMEs

Shortage of raw materials and shortage of machinery are ranked as the two major constraints by Rwandese SMEs; almost 100% of their inputs are imported through middlemen or informally by SMEs themselves. The third prominent constraint is the shortage of accessories and lasts; this is a matter that has already been alluded to before. Import tax is also viewed as a factor that is raising the cost of production; this mainly relates to inputs, which emanate from non COMESA FTA countries. Technical support which includes production skills, selection of materials and market awareness are essential services that should be rendered by Government. A number of SMEs have an inferiority complex and are not ready to visit Government offices, therefore Government officials must be proactive and visit these SMEs in their premises and provide technical support. See summary rating of the constraints impacting on the performance of SMEs in Rwanda. Most SMEs operate in backyards and markets, which undermines their visibility and professional status.

Table 17: Ranking of Constraints by SMEs

| No. | Variable | Rwanda (%) |
|-----|---|------------|
| 1 | Financial problem (Working capital) | 4.2 |
| 2 | Market access problem | 4.2 |
| 3 | Inadequate/absence of machineries | 20.8 |
| 4 | Import tax | 8.3 |
| 5 | Shoe last and other accessories | 16.7 |
| 6 | Raw materials problem (quality, availability, cost) | 20.8 |
| 7 | Skilled manpower shortage | 4.2 |
| 8 | Lack of technical support | 4.2 |
| 9 | lack of training opportunity | 8.3 |
| 10 | Inadequacy of working Tools | 4.2 |
| 11 | Unfair Competition from imported second hand and Synthetic products | 4.2 |
| | Total | 100 |

COMESA/LLLPI SME Survey (2014)

Despite the upsurge in the importation of footwear, mainly synthetic, the Rwandese SMEs do not view that as a challenge. The unfair competition from imported second hand shoes and synthetic received a rating of 4.2%. This is a paradox as cost in COMESA countries of second hand imports and synthetic shoes have impacted negatively on the performance of SMEs.

2.5.4. Technical Skills Acquisition

The majority of SMEs (33.3%) have a minimum of secondary education, which is strength of the SME sector in Rwanda, as the capacity of learning new skills and ideas is positively correlated with the level of education. This is an area, which should be capitalized on by Rwandan authorities to enhance the production and managerial skills of these SMEs.

Table 18: Level of Education of SMEs (%)

| | Primary | Secondary | Vocational | Certificate | Diploma | Degree | Others |
|--------|---------|-----------|------------|-------------|---------|--------|--------|
| Rwanda | 16.7 | 16.7 | 33.3 | 16.7 | 16.7 | | |

COMESA/LLLPI SME Survey (2014)

Despite the high education level, the 63% of SMEs involved in footwear production in Rwanda have not received formal training in footwear production; most of them were trained by friends and family members; on the other hand 27.3% were self-taught. This is a major gap, which needs to be addressed by offering short courses to improve the technical skills of these SMEs. The details are shown in Table 19 below.

Table 19: Source of Footwear Production Skills

| Countries | Self –taught (in%) | From friends and family (in %) | From previous job (in %) | Vocational (in %) | Others (in %) | Total |
|-----------|--------------------|--------------------------------|--------------------------|-------------------|---------------|-------|
| Rwanda | 27.3 | 36.4 | 27.3 | - | 9.1 | 100 |

COMESA/LLLPI SME Survey (2014)

2.6. Regional Comparative Analysis

This section analyses the competitiveness of the Rwanda 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 that is the tariff is assessed with regard to Most Favoured Nations (MFN), COMESA and the East African Community. In order to present a comprehensive picture Rwanda's situation is compared with the situation in Burundi, Egypt, Ethiopia, Kenya, Uganda, Zambia and Rwanda. The rationale of the

comparative analysis would assist Rwanda in drawing practical lessons from countries, whose leather value chains are growing rapidly.

2.6.1. 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. Rwanda's index for Chapter 41 and 64 stood at 2.4 and 1.36. Rwanda is an important exporter of hides and skins in the region, as its index is above the regional average of 1.5%. The situation also prevails for chapter 64, however it should be noted that Rwanda's production of footwear is very low; thus, this could be a reflection that Rwanda maybe a secondary exporter of footwear emanating from other countries. These ratios could be raised if Rwanda adds value to its raw hides to wet blue, crust or up to finished leather. Details see Table 16.

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 Rwanda are above the regional averages, which show the importance of the leather value chain to it, however it is less than those of Egypt, Ethiopia and Kenya. Details of the ratios are shown in Table 20.

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-years period. Industry with rapid export growth in value terms suggest that the country is competitive on the world markets, while stagnant or declining growth rates indicate the reverse. Everything else equal, fast growing exports, even in small absolute numbers, point at product groups for which the country has a particular export potential. Rwanda ratios display rapid growth, which is above the regional average; this, therefore, reflects that the value chain holds great potential for Rwanda. See details in Table 17 below

Table 20: Summary of Competitiveness Indicators of Rwanda and other COMESA Member States

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

Source: ITC Competitiveness Data Base

Specialisation (Balassa Index/RCA Index): This index, known by the description "Revealed Comparative Advantage" (RCA), tries to identify product groups where the targeted country has an obvious advantage in international competition. This is of special importance in order to promote trade of products that are more likely to be competitive. However, for trade analysis, it is more appropriate to consider RCA simply as an Index of Specialisation (IS). If it takes a value of less than 1, this implies that the country is not specialized in exporting the product. Similarly, if the index exceeds 1, this implies that the

country is specialized in exporting the item. Chapter 41 exports stands at 13.2, which reflects that Rwanda is specializing in the export of the given commodity, and its performance is above the regional average, which stands at 9.

Lafay Index: This index tries to reveal comparative advantage by comparing, in US\$ thousands, the balance of trade of a country for a selected industry with a theoretical balance corresponding to the absence of specialization. Since it takes into account both exports and imports, it is therefore more suitable for a country with intra-industry trade. This indicator is extremely useful in identifying strong and weak points (positive and negative values of the index) of a specific country and comparing them with its competitor. Rwanda's index is above the region index for chapter 41, reflective that it has a comparative advantage. With regard to footwear the whole region in global terms is still lagging behind.

2.6.2. The Importance of Hides and Skins Exports in Rwanda

The export of raw hides is very important domestically and is very competitive on the export market with regard to all the above indicators. For example when all export are ranked it is in the top ten of the 97 Chapters of HS. The hides and skins exports position in Rwanda's export basket with regard to the various indicators are shown in Table 21 below:

Table 21: The Importance of the Leather Value Chain in the Top Ten Rwandese Exports

| Indicator | Position in national ranking (1 to 97 chapters) |
|------------------------|---|
| Share to total Exports | 6 |
| Net Trade | 2 |
| RCA | 6 |
| Lafay | 6 |

Source: ITC Competitiveness Data Base

2.6.3. Trade Policy Analysis

Rwanda's Trade Policy, as reflected by the main trade instruments MFN and preferential tariffs are not significantly different from some of the selected comparators listed in Table 18 below. However this policy fails to take into consideration the fact that Rwanda is not producing finished whereas all other countries listed in the table produce finished leather. The import duty set raises the cost of imported leather.

Table 22: Trade Policy Comparison

| Countries | MFN (%) | | Ethiopia (%) | | COMESA/ FTA (%) | | EAC/SADC (%) | |
|-----------|---------|----|--------------|------|-----------------|------|--------------|----|
| | 41 | 64 | 41 | 64 | 41 | 64 | 41 | 64 |
| Burundi | 10 | 25 | 9 | 22.5 | 0 | 0 | 0 | 0 |
| Egypt | 0 | 35 | 0 | | 0 | 31.5 | | |
| Ethiopia | 0 | 35 | 0 | | 0 | 31.5 | | |
| Kenya | 10 | 12 | 1 | 2.5 | 0 | 0 | 0 | 0 |
| Rwanda | 10 | 25 | 9 | 22.5 | 0 | 0 | 0 | 0 |
| Uganda | 10 | 25 | 9 | 22.5 | 2 | 5 | 0 | 0 |
| Zambia | 15 | 25 | 13.5 | 22.5 | 0 | 0 | 0 | 0 |
| Zimbabwe | 15 | 60 | 72 | | | | | |

Source: ITC Market Access Database

2.6.4. Trade Policy on Hides and Skins

Trade policies on hides and skins export currently obtaining in selected regional countries, and the actual impact, which have been registered in the past years are summarized in Table 23 below. The export restriction policies based on export tax has generally contributed

to the growth of the tanning sector in the three countries, as reflected by the number of new tanneries which were established and also the export values.

Table 23: Summary of the Policies and Impact

| Country | Nature of Policy | Recorded Impact | General Comment |
|----------|--|--|--|
| Ethiopia | High export tax on raw hides' 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 US\$ 10.6 million in 2001 to US\$ 166 million in 2012, dominated by wet blue | |
| Uganda | Export tax on raw hides | This has seen the number of tanneries rising from one to 6, and export value from US\$ 25 in 2003 million to US\$ 41 million in 2012 | |
| Rwanda | Free Export of hides and skins | Rapid growth in the export of raw hides and skins. Earnings from chapter 41 exceeds earnings, which were recorded during when the tanneries were operating. | |

All countries in the EAC are using export tax to discourage the export of raw hides and skins except for Rwanda. Since Rwanda has no operational tannery at the moment there is no need to institute and export tax, however a provision can be made to institute it once the Tannery is operational in Rwanda.

2.7. Conclusion

This Chapter has discussed and demonstrated quantitatively the issues pertaining to losses being incurred because of exporting raw hides and skins, and also the potential export earning if value addition is achieved in Rwanda; 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 Kigali Rwanda, in March 2014.

CHAPTER III: PARTICIPATORY ANALYSIS OF THE VALUE CHAIN

1. Introduction

The crafting of the Strategy blended the collection of both qualitative and quantitative data from primary and secondary sources. The primary sources included one to one meetings with SMEs during the baseline survey of SMEs, which was taken in February 2014; this was followed with meetings and site visits to slaughter houses and hides and skins traders. A participatory workshop was organized in Kigali, which drew participants from the various segments of the value chain, from Kigali and other districts of Rwanda. This workshop assisted in generating, moderating, collating and prioritizing of important issues. See below pictures, which were taken during the Stakeholders Participatory Stakeholders Meeting that was held in Kigali, Rwanda in March 2014.



Figure 9: Participatory Workshop

1.1. Distribution of Workshop Participants

The workshop participants were drawn from the various segments of the leather value chain, relevant Government ministries and Departments from Kigali and other parts of Rwanda. The main objective of drawing 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. Strategic formulation processes, which are participatory, usually address the key issues that need to be addressed for the sector to develop. In addition, it assists in enhancing the buy-in and commitment by stakeholders in their implementation. See the distribution of participants by value chain segment below:

Table 24: Distribution of Stakeholder Consultation Workshop Participants

| Participants by Segment of the value chain | Participants | |
|--|--------------|---------------|
| | Absolute | Percentage |
| Farmers | 6 | 17.14 |
| Butcheries | 0 | 0.00 |
| Slaughterhouse | 1 | 2.86 |
| Local Hides and skins Collectors | 0 | 0.00 |
| Hides and Skins Exporters | 3 | 8.57 |
| Leather goods manufacturers –SMEs | 7 | 20.00 |
| Footwear Manufacturers – SMEs | 8 | 22.86 |
| Importers of leather and other accessories | 2 | 5.71 |
| Government Departments | 4 | 11.43 |
| Other Stakeholders | 4 | 11.43 |
| Total | | 100.00 |

1.2. The Importance of the Leather Sector

The participants during the Stakeholders meeting rated the importance of the leather value chain, with regard to the attributes listed in Table 25 below. The majority of the participants rated the leather value chain as important in employment creation, by export revenue generation and contribution to the Government revenue. Statistics in Table 17 in chapter II of this strategy shows that, the leather value chain is also very important in foreign currency generation, as illustrated in the previous Chapter, where it contributes 2.4% to total foreign currency earnings, and is among the top exports of Rwanda, despite the fact that exports are mainly dominated with raw hides. This is a reflection of the potential, which the value chain holds.

Table 25: Rating of the Importance of the Leather Sector

| Attribute of Importance | Rating by Participants | |
|------------------------------------|------------------------|------------|
| | Absolute | Percentage |
| Employment | 49 | 40 |
| Export revenue | 8 | 7 |
| Gross Domestic growth | 31 | 25 |
| Contribution to Government Revenue | 6 | 5 |
| Improvement in livelihoods | 28 | 23 |
| Total | 122 | 100 |

Stakeholders were also given an opportunity to assess the importance of the leather value chain with regard to employment creation. Hides and skins marketing were rated as the first, followed by footwear and leather goods manufacturing. This is the reflection of the status quo. It was reported during the meeting that the number of hides and skins exporting companies were growing. See the details in Table 26 below.

Table 26: Rating of the Value Chain Segments with Respect to Employment Creation

| Value Chain Segment | Rating by Participants | |
|---------------------------------------|------------------------|------------|
| | Absolute | Percentage |
| Livestock Slaughtering | 33 | 25 |
| Hides and Skins Marketing | 38 | 29 |
| Tanning | 24 | 18 |
| Footwear and Leather goods production | 35 | 27 |
| | 130 | 100 |

1.3. Identification of Issues

1.3.1. Hides and Skins Production

The main feedstock of the leather supply chain, hides and skins are a by-product of the meat and dairy market chains. Therefore the production of hides and skins is virtually inelastic to changes in their price, but is influenced by factors that drive the meat and dairy markets. On the other hand the consumption of footwear with leather uppers and other leather products is positively related to changes in the purchasing power of consumers, as reflected by the fact that high income countries import proportionately more footwear than poor countries, as shall be illustrated in the relevant sections of this report. The dynamics in the leather chain are, therefore, to a significant extent, dependent on the level of performance in the meat and dairy markets and growth trends in the global economy.

Given the above, the quality and the volume of the hides and skins produced per annum or any given period is influenced by the production system and also the demand of meat, which is also influenced by the performance of an economy. There is generally a positive

correlation between the performance of the economy and meat consumption, consequently on the production of hides and skins.

Being a natural raw material, hides and skins are bound to have a number of defects, the cause for which varies widely. They are classified into three main groups, namely: Pre-, Peri- and Post- slaughter Defects.

1.3.2. Pre-Slaughter Defects

Pre-slaughter defects or Anti-mortem Defects originating while the animals are alive. These are caused by different factors like poor management, generic make-up (inherent characteristics), diseases, nutrition etc. The prevalence of the factors, which inflict damage on the skins of live animals, is influenced by the livestock production system.

According to stakeholders who participated during the consultation workshop, the Rwandese livestock production system is dominated by subsistence – zero grazing, followed by subsistence free ranching. In addition they also rated that 78 percent of raw hides and skins, with a high incidence of pre- slaughter defects, were sourced from subsistence free ranching, followed by subsistence zero grazing. Their assessment was thus consistent with theory and empirical evidence. See the summary of their rating in Table 27 below.

Table 27: Livestock Production Systems in Rwanda

| System | System contribution (%) | High Frequency of Defects (%) |
|----------------------------|-------------------------|-------------------------------|
| Subsistence free ranching | 29 | 78 |
| Subsistence – zero grazing | 70 | 17 |
| Commercial – zero grazing | 1 | 5 |
| Total | 100 | 100 |

It is also fundamental to note that there was a general consensus, which was shared in particular by exporters of hides and skins that the quality of hides and skins in Rwanda was of good quality in comparison to hides and skins from neighboring countries; this was attributed to emerging importance of zero grazing and also to effective livestock extension support. Despite this, stakeholders identified the following as issues that need to be addressed in order to minimize the pre-slaughter defects:

Table 28: Pre-Slaughter Issues Identified During the Workshop

| Identified Issues | Causes Level Two | Causes Level One |
|--|--|---|
| Poor animal husbandry practices in free ranching communities | | Traditional animal husbandry practices of pastoralist |
| Limited information, high costs of inputs and lack of extension services | Most of the vet drugs are imported | No veterinary drugs production in Rwanda |
| Improper animal handling facilities during transportation | Inadequate number of suitable vehicles for transporting live animals | Limited access to finance to purchase suitable vehicles; |
| Export of live animals | Inadequate or absence of abattoirs meeting export requirement | Limited access to finance to construct a state of the art Abattoirs |

1.3.3. Peri and Post Slaughter Issues

Peri-slaughter Defects are the defects originating before and during the time of slaughter such as failure to rest the animal for certain period of time before killing, incomplete bleeding, dragging of the carcass on the ground, poor flaying of hides and skins, etc. The group of defects that occur after the hides and skins are flayed, and include poor curing of the hides and skins, poor handling during transportation, improper storage, poor tanning process etc are called Post –slaughter.

The pre-slaughter defects in hides and skins, when compared with the peri- and post slaughters, are minimal. Respondents also cited the major peri-slaughter defects as: lack of skilled manpower, improper ripping, flaying on rough floor, inadequate bleeding during the slaughter of animals, fouling with blood and dung, insufficient slaughter and flaying equipment, rubbed or drugged grain, bruises, etc.

Major Post-slaughter defects, as cited by various stakeholders during field visits/assessment and workshop in Rwanda are classified into two: flaying defects, preservation and storage defects. **Flaying Defects:** A large number of hides and skins contain defects due to insufficient use of flaying knives (improper pointed knives) and carelessness; such as score produced through faulty flaying, cuts, holes improper ripping line, dirt and poor pattern in hides, putrefaction etc.

Preservation and Storage Defects: Some of the preservation and storage defects cited by various stakeholders are taint and hair slip, red heat, improper salting, folds, rubbing during transport, moulds due to prolonged duration in damp conditions, insects and rodents damage while dried hides/skins are stored before sending to tanneries etc. It was also observed that the preservation housing was not constructed for the specific purpose.

The basic idea of preservation is to keep the hides and skins in good condition without putrefaction until they are processed in tanneries. The identified issues, which should be addressed, as summarized in Table 29 below:

Table 29: Peri and Post Slaughter Issues

| Identified Issues | Causes Level Two | Causes Level One |
|--|---|--|
| <ul style="list-style-type: none"> • High frequency of flay cuts • Incorrect hides and skins shape • Veinoses (veinesses) | <ul style="list-style-type: none"> • Poor slaughtering practices: unskilled labour force, inappropriate technology • Poor or inadequate slaughtering infrastructure in villages and up country business centres | <ul style="list-style-type: none"> • Inadequate or lack of training of flayers; • Inadequate or lack of appreciation of the value of hides and skins; |
| | <ul style="list-style-type: none"> • Rushed flaying to increase the daily earnings | <p>Economic Issues:</p> <ul style="list-style-type: none"> • Flayers are paid per number of animals flayed • No mechanism is put in place to penalize the production of poor quality hides; • Inadequate quality control in slaughter houses |
| | <ul style="list-style-type: none"> • Prices of hides and skins not related to the quality of hides and skins; • Lack or inadequate skills in hides and skins grading | <ul style="list-style-type: none"> • Absence of hides and skins grading standards |
| | <ul style="list-style-type: none"> • Lack of knowledge and awareness of the importance of hides and skins | <ul style="list-style-type: none"> • Inadequate or lack of extension support to hides and skins improvement. |

| Identified Issues | Causes Level Two | Causes Level One |
|---|---|---|
| High incident of putrified hides and skins in the edges | <ul style="list-style-type: none"> • Poor storage and preservation techniques and infrastructure; • Reuse of salt; • Poor salting or application of inadequate amounts; • Salting hides and skins before washing them | <ul style="list-style-type: none"> • Inadequate or lack of extension support to hides and skins improvement • Lack or inadequate skills in hides and skins preservation |

1.3.4. Hides and Skins Collection and Marketing

The participants/economic agents in the marketing of hides and skins are not organized and coordinated as is with the case with Farmers Association, Footwear and Leather goods SMEs. To enhance the performance of the given segment of the leather value chain, with regard to efficiency in the collection of hides and skins, dealing with peri and post slaughter issues, it is important that these economic agents be organized into an association. The potential revenue earnings to the fiscus (Treasury) from the hides and skins marketing can also be enhanced once these players are known and well organized. The entry of new hides and skins exporters, whilst it is a positive development, it can also cause problems to the sector. For instance, the hides and skins produced in Rwanda are of very good quality because of zero grazing and also effective extension system consequently hides and skins originating from Rwanda, are receiving a premium price as reported by some of the exporters. However the absence of collaboration of the agents to put checks and balances, as it was reported that some of the exporters are mixing hides and skins from Rwanda with others from other neighboring countries of lower quality. This development may in the medium to long term impact negatively on the brand of the Rwandese hides and skins. See details in Table 30 below.

Table 30: Hides and Skins Marketing Issues

| Identified Issues | Causes Level Two | Causes Level One |
|---|---------------------|--|
| Lack of collaboration among the hides and skins traders | Fear of competition | Lack or inadequate institutional support |
| No organized marketing of hides and skins | | |
| Poor facilities for hides and skins collection and preservation | | |

1.3.5. Tanning

The discussion under this section was not comprehensive enough as there is no operational tannery in Rwanda, and this segment was not represented, however the stakeholders who participated in the workshop identified the following issues summarized in the table below.

Table 31: Tanning Issues

| Identified Issues | Causes Level Two | Causes Level One |
|---|---|--|
| No serviced Industrial Zone for Tanneries | No suitable serviced industrial stand for setting up a tannery | High minimum environmental requirement standard |
| Two tanneries closed | Increased the cost of production of tanneries, which were operating | <ul style="list-style-type: none"> • High prices of hides and skins • Competition from hides and skins exporters |
| | | Unsuitable location, which violated environmental regulations |

1.3.6. Footwear and Leather Goods Production

Footwear production is dominated by SMEs or artisans, which operate in markets and backyards across Rwanda. This is one segment in the leather value chain, which is organized, and demonstrating some collaboration amongst its membership and also creating an interface with Government. The issues, which were identified during the Stakeholders Workshop, are summarized in Table 32 below.

Table 32: Footwear and Leather Goods Production Issues

| Identified Issues | Causes Level Two | Causes Level One |
|---|---|--|
| Slow growth rate of SMEs | <ul style="list-style-type: none"> Inadequate entrepreneurial skills; Limited technical support; Limited access to finance | <ul style="list-style-type: none"> No specific or clear policy to support the development of SMEs in the subsector; Absence of robust incubation and service centre facilities |
| <ul style="list-style-type: none"> Low productivity Low quality of products | Inadequate technical skills | <ul style="list-style-type: none"> One training centre, which has limited or no qualified trainers; Trade-off between training and production |
| | Inadequate equipment & machinery | <ul style="list-style-type: none"> Limited access to finance Limited culture of ploughing back profits |
| Low competitiveness of products | <ul style="list-style-type: none"> Majority of SMEs are producing below breakeven level; | <ul style="list-style-type: none"> Inadequate availability of leather and other accessories; Absence of a leather production tannery; High import tariff and VAT; Lack of coordination and collaboration by SMEs |
| Limited access to finance | Inadequate collateral base; | <ul style="list-style-type: none"> Weak assets base among most of the SMEs |
| | Limited ability to develop bankable business plans | <ul style="list-style-type: none"> Lack of business development skills among SMEs; Absence of robust incubation and service centres; Inadequate support from business and technical support institutions |
| Lack of information on business intelligence and policy matters | Inadequate collaboration among SMEs; | |

1.4. Conclusion and Emerging Priority Intervention Areas

The priority interventions, which were identified by the stakeholders, were as follows:

- Improve the quality of hides and skins in order to optimize on the current earnings, and also to lay a solid base for opening a tanning facility in Rwanda;
- Support the development of the SMEs, who are currently involved in the production of footwear, as a mechanism of boosting employment and also increase the demand for finished leather. The increased demand of leather is critical, as a mechanism of inducing a market pull in attracting the production for finished leather in Rwanda.
- Develop a Leather Industrial Park with requisite infrastructure, which meets the minimum environmental requirements, as set by the Rwanda Agency for Environment Management.
- Improve institutional support and resources to develop the leather value chain, given its potential to generate foreign currency, employment and GDP growth.

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

It is however imperative to point out that so long as there is no operational tannery in Rwanda, it is prudent to continue exporting raw hides and skins without restriction. However once a tannery is set up, it is recommended that an export tax be imposed in line with all EAC countries, which have managed to grow their leather sectors at the back of export taxes. Burundi is now producing finished leather and a secondary tannery is being constructed. In Uganda the number of tanneries has increased from 2 to 7, since an export tax was imposed in 2002. Kenya exports have grown from US\$41 million to US\$162 million at the back of an export tax regime.

CHAPTER IV: STRATEGY

4. Introduction

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

4.1. Vision and Mission

The Vision of the Rwandese leather value chain is: “To be globally competitive leather value chain”

The Mission of this strategy is to: Transform the Rwandese leather value chain from export of raw hides and skins to production and export of value added products. This will be accomplished by:

- Improving the quality and collection of hides and skins;
- Support the development and growth of SMEs who are involved in the production of leather footwear and goods;
- Set up an Industrial Park for the leather sector; and
- Improve institutional, policy and financial support and market intelligence.

4.2. Strategic Market and Growth Goals

In accordance with the vision and mission of the strategy, the private sector has identified specific target markets for selected products. These are shown in Table 33 below. The overall market direction shifts the focus of the leather industry to increasing the production of value-added leather products, such as wet blue, 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.

Table 33: Target Markets

| | Wet Blue | Finished Leather | Leather Goods |
|----------|-----------------|-------------------------|---|
| Domestic | | After 3 years | <ul style="list-style-type: none">• Expand production in yr 1 and 2 based on imported leather• Year 3 depend on locally produced leather |
| Export | After 3 years | In year 6 | In year 8 onwards |

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

Table 34: Growth Strategic Targets

| Product Description | Growth Targets | | |
|---------------------|---|--|--|
| | 2014-2017 | 2018-2021 | 2022-2026 |
| Raw Hides and Skins | -50% based on 2014 exports | -100% cumulative based on the reduction in the 2014-17 period | No export of raw hides and skins |
| Wet blue | 50% of what is currently exported in raw state is processed into wet blue | 100% of hides and skins produced in Rwanda are converted into wet blue | |
| Crust leather | | 50% of the total hides and skins exported as crust | 75% of the total hides and skins exported as crust on cumulative basis |
| Finished leather | | 25% of total converted into finished leather for domestic production | 50% of total converted into finished leather for domestic production |
| Footwear | Increase output by 500,000 pairs | Increase by 25% based on the 2014-17 | Increase by 25% based on 2018-21 figures. |

4.3. Strategy Objectives and Sub-Objectives for the Value Chain Development

The specific objectives and interventions sections listed articulate the proposed mechanisms of addressing the issues identified by stakeholders and also drawn from the quantitative analysis at each level of the value chain. Sub-objectives and activities 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 export of value added products, such as finished leather, footwear and leather goods.

The Strategy's objectives and the rationale of selecting the given objectives are summarized in Table 35 below. The prioritization targets low hanging fruits, as a mechanism of mobilizing support, however the implementation can be done simultaneously.

Table 35: The Rationale for the Selected Objectives

| Priority | Objectives | Rationale |
|----------|---|--|
| 1 | Enhance the quality and collection of hides and skins | This will boost foreign currency earnings in the short-run, and also build a firm base of attracting investors to set up tanneries as quality and adequate material would be available. This is a quick win, which would assist in enhancing the importance of the sector vis-a-vis other commodities such as coffee and tea. This would attract the attention of policy and decision makers, consequently making it easier to mobilize resources to support the sector. |
| 2 | Improve the performance of SMEs who are currently involved in the production of footwear and leather goods through the CPC Methodology. | This would increase the demand of finished leather in Rwanda; thereby act as a market pull for tanneries, once set to produce finished leather. Secondly the support of these SMEs would create employment and promote the consumption of domestically produced footwear, thereby contribute to the improvement of the balance of payment, as imports of footwear stood at US\$10 million in 2012. Rwanda through MINICOM is already supporting the development of SMES involved in the production of footwear through setting up of CPC. The CPC concepts would act as a nucleus for developing the footwear and leather goods enterprises in Rwanda. |
| 3 | Develop an Industrial Park for the Leather Industry | Attract investors to set up a new tannery, as they would be guaranteed of meeting the minimum environmental standards. In addition a common industry park with a common effluent plant, would enhance the competitiveness of the produced leather, as it has been observed that common effluent plant reduces overheads of tanning facilities significantly. The development of the Industrial Park |

| Priority | Objectives | Rationale |
|----------|--|---|
| | | could be phased starting with the Common Effluent Plant and then extended to include other facilities. However the phases of the various phases should be informed by a feasibility study. The steps are detailed in the action plan matrix. |
| 4 | Improve institutional, policy support, financial and market intelligence | The industrialization process, just as agriculture requires extension support, however in most African countries such support is absent. Extension support to SMEs in all aspects of business namely production, procurement, marketing and financial management is important in reducing their transaction costs, consequently boosting their competitiveness. In addition, market intelligence about the performance of the sector and market opportunities is critical for decision making by current and potential investors and customers. |

Note the budget estimate given in the next section is subject to review in consultation with the Ministry of Industry and Commerce.

4.4. 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 which would contribute to the attainment of this Strategy's vision, and this will be manifested through measurable indicators specified under strategic market and growth goals.

4.4.1. Objective 1: Enhance the Quality and Collection of Hides and Skins

During site visits and also the deliberations, which were shared during the Stakeholder's Consultation Workshop revealed that the quality of hides and skins in Rwanda is better than in most regional countries. This was reflected by export average price of raw hides and skins, which was reported at US\$ 1.90 F.O.B, Mombasa and the total export revenue, which stood at US\$12 million in 2012. Despite this, the site visits revealed that there were still noticeable issues relating to flaying and preservation. In addition to this, the absence of hides and skins grading standards, has acted as a quality improvement disincentive, as all hides and skins irrespective of quality, were pegged at the same price. Addressing these issues, that improving flaying skills, preservation, introducing grading standards, and training in hides and skins grading, and enforcement of these standards through inspection would instantaneously raise the quality of hides and skins consequently earnings for the chain players and also for the country.

It was also observed that there were governance issues in the marketing chain of hides and skins, whereby the powerful chain players were restricting the entry of locally owned enterprises into the hides and skins export market. This is in line with what Kaplinsky R, and Morris M (2000) stated, when they argued "the power which any party may have in the chain may paradoxically be reflected in two seemingly contradictory attributes; first is obvious and arises from the power to force other parties to take particular actions, for example to limit themselves to assembly rather than to involve themselves in design" (p.66). In the case of the leather value chain, the locals are limited to collecting hides and skins nationally and then sell to foreign owned Export Merchants. This is a matter requiring further investigation.

The objective focuses on the first level of the value chain by improving the quality and quantity of collected hides and skins, so as to supply the leather industry with the required raw materials. This objective targets cattle farmers, traders, butcheries, abattoirs and hides/skins collectors but will have an impact on the entire leather sector.

The identified sub objectives are:

- Raise awareness on the importance of hides and skins among the value chain players;
- Train slaughter house foremen/supervisors for enforcing total quality management in the flaying process;
- Train flayers on proper flaying techniques;
- Train collectors and slaughter house owners and workers on proper preservation techniques;
- Legislate for the specifications of suitable hides and skins storage facilities;
- Draft and legislate hides and skins grading standards;
- Set up a unit to undertake hides and skins inspection or widen the scope of meat inspectors to include hides and skins inspection;
- Come up with a database of all players involved in livestock trading, butcheries and hides and skins collectors;
- Come up with information collection system to generate a hides and skins pricing index

The activities, which should be implemented in order to attain the sub-objectives listed above, are summarized in Table below. In addition to measurable outputs, the budget estimate for the activities and the collaborating stakeholders are also included for easier reference and implementation.

Table 36: Objective one: Enhance the Quality and Collection of Hides and Skins

| Objective 1: Enhance the Quality and Collection of Hides and Skins | | | |
|--|---|---|--|
| Sub-Objectives and Activities | Expected Output | Stakeholders | Budget Estimate (US\$) for 10 Years |
| Raise awareness on the importance of hides and skins among the value chain players | | | |
| Activities: | | | |
| <ul style="list-style-type: none"> Design posters and distribute across the country | Posters printed and distributed | <ul style="list-style-type: none"> Ministry of Agriculture; Ministry of Finance Ministry of Information International Organizations e.g. FAO, UNIDO; Media houses Relevant NGOs working on livestock related business | 500,000.00 |
| <ul style="list-style-type: none"> Radio and TV talk show program on the importance of the leather value chain; Invite influential people to participate in the talk shows | Radio and TV shows aired on radio and TV programs once per month in the first year, then once per quarter | <ul style="list-style-type: none"> Ministry of Agriculture; Ministry of Information International Organizations e.g. FAO, UNIDO; Media houses | 200,000.00 |
| Train Slaughter house foremen/supervisors for enforcing total quality management in the flaying process | | | |
| Activities | | | |
| <ul style="list-style-type: none"> Design the curriculum | Curriculum designed | <ul style="list-style-type: none"> COMESA/LLPI Ministry of Agriculture; Ministry of Finance International Organizations e.g. FAO, UNIDO; IFAD Relevant NGOs working on livestock related business | 10,000.00 |
| <ul style="list-style-type: none"> Execute the training | The number of foremen trained | | 100,000.00 |
| <ul style="list-style-type: none"> Monitor and Evaluate the impact of the training | M & E report produced | | 40,000.00 |
| <ul style="list-style-type: none"> Hold refresher courses, in response to the outcome of the M & E | The findings of the evaluation implemented | | 50,000.00 |
| Train flayers on proper flaying techniques | | | |
| Activities | | | |
| <ul style="list-style-type: none"> Design the curriculum | Curriculum designed | <ul style="list-style-type: none"> COMESA/LLPI Ministry of Agriculture; Ministry of Finance International Organizations e.g. FAO, UNIDO; IFAD Relevant NGOs working on livestock related business | 10,000.00 |
| <ul style="list-style-type: none"> Execute the training | The number of flayer | | 150,000.00 |
| <ul style="list-style-type: none"> Monitor and Evaluate the impact of the training | M & E report produced | | 40,000.00 |
| <ul style="list-style-type: none"> Hold refresher courses, in response to the outcome of the M & E | The findings of the evaluation implemented | | 50,000.00 |
| Train collectors and slaughter house owners and workers on proper preservation techniques; | | | |
| Activities | | | |
| <ul style="list-style-type: none"> Design the curriculum | Curriculum designed | <ul style="list-style-type: none"> COMESA/LLPI Ministry of Agriculture; Ministry of Finance International Organizations e.g. FAO, UNIDO; IFAD Relevant NGOs working on livestock related business | 10,000.00 |
| <ul style="list-style-type: none"> Execute the training | The number of slaughter house and foreman trained | | 150,000.00 |
| <ul style="list-style-type: none"> Monitor and Evaluate the impact of the training | M & E report produced | | 40,000.00 |
| <ul style="list-style-type: none"> Hold refresher courses, in response to the outcome of the M & E | The findings of the evaluation implemented | | 50,000.00 |
| Design and legislation for the specifications of a suitable hides and skins storage facility | | | |
| Activities | | | |
| <ul style="list-style-type: none"> Design and come up with drawings, which meet | Design and drawings completed | <ul style="list-style-type: none"> COMESA/LLPI, Ministry of Agriculture, UNIDO, | 30,000.00 |

| Objective 1: Enhance the Quality and Collection of Hides and Skins | | | |
|---|---|---|--|
| Sub-Objectives and Activities | Expected Output | Stakeholders | Budget Estimate (US\$) for 10 Years |
| <i>the minimum environmental standards</i> | | <i>National Works and Environment Agency</i> | |
| • <i>Share the drawings with the relevant stakeholders</i> | <i>Design shared and endorsed with the relevant stakeholders</i> | | 10,000.00 |
| • <i>Submit for approval from the relevant authorities</i> | <i>Design and drawing submitted and approved</i> | • <i>National Works or Surveyor General</i> | 5,000.00 |
| • <i>Draft the relevant instrument for legislation</i> | <i>Relevant instrument designed</i> | • <i>Legislation Drafting Department of Ministry</i> | 1,000.00 |
| • <i>Enact or gazette the relevant instrument</i> | <i>The instrument submitted and enacted/gazette</i> | | 1,000.00 |
| • <i>Set the period for all hides and skins collectors to implement the legislation</i> | <i>The timeline set and published</i> | • <i>Ministry of Agriculture and Environmental Agency</i> | |
| • <i>Enforce the implementation of the legislation</i> | <i>Enforcement report completed monthly</i> | • <i>Ministry of Agriculture and Environmental Agency</i> | 100,000.00 |
| Draft and legislate hides and skins grading standards; | | | |
| Activities | | | |
| • <i>Draft the hides and skins grading standards</i> | <i>Draft completed</i> | • <i>COMESA/LLPI, Bureau of Standards, Ministry of Agriculture, Environment Agency, UNIDO, FAO and Chain Players</i> | 20,000.00 |
| • <i>Share the draft with chain players and relevant stakeholders for endorsement</i> | <i>Draft shared and endorsed</i> | | 10,000.00 |
| • <i>Draft the relevant instrument for legislation</i> | <i>The legal instrument drafted and submitted to relevant authorities</i> | | 1,000.00 |
| • <i>Enact or gazette the relevant instrument</i> | <i>The instrument enacted/gazetted</i> | | 1,000.00 |
| • <i>Monitor and enforce the adherence of the agreed standards</i> | <i>Monitoring and enforcement</i> | | 0.000.00 ¹⁴ |
| Set up a Unit to undertake hides and skins inspection or widen the scope of meat inspectors to include hides and skins inspection; | | | |
| Activities | | | |
| • <i>Design the scope and mandate of the Unit</i> | <i>Scope and mandate designed and submitted to relevant authorities</i> | <i>COMESA/LLPI, Bureau of Standards, Ministry of Agriculture, Environment Agency, UNIDO, FAO and Chain Players, Ministry of Finance</i> | 10,000.00 |
| • <i>Design the structure of the Unit</i> | <i>The structure designed and submitted to relevant authorities</i> | <i>COMESA/LLPI, Bureau of Standards, Ministry of Agriculture, Environment Agency, UNIDO, FAO and Chain Players</i> | 20,000.00 |
| • <i>Design job descriptions and minimum qualifications</i> | <i>Job descriptions designed and minimum qualifications set and submitted to the relevant authorities</i> | <i>COMESA/LLPI, Bureau of Standards, Ministry of Agriculture, Environment Agency, UNIDO, FAO and Chain Players</i> | 2,000.00 |
| • <i>Estimate resource requirements</i> | <i>Resource for start up and annual operation estimated and submitted to the relevant authorities</i> | <i>Ministry of Finance, Ministry of Agriculture</i> | |
| • <i>Bid for resources from the Ministry of Finance</i> | <i>Budget request submitted to the Ministry of Finance</i> | <i>Ministry of Finance</i> | |
| • <i>Recruit staff and start operation</i> | <i>Operations resumed</i> | <i>Line Ministry designated to house this new unit</i> | 288,000.00 |
| • <i>Evaluate the operations and impact of the Unit</i> | <i>M & E undertaken annually and report submitted to the relevant authorities</i> | <i>Line Ministry</i> | 100,000.00 |

¹⁴ Executed at same time with the sub objective above

| Objective 1: Enhance the Quality and Collection of Hides and Skins | | | |
|---|--|---|--|
| Sub-Objectives and Activities | Expected Output | Stakeholders | Budget Estimate (US\$) for 10 Years |
| Come up with a database of all players involved in livestock trading, butcheries and hides and skins collectors; | | | |
| Activities | | | |
| Design the structure of the database | Database designed | Cooperative society, Rwanda Development Board | 10,000.00 |
| Collect the profiles of the chain players | Profiles collected | Cooperative society | 50,000.00 |
| Upload the database | Database uploaded and operationalised | Cooperative society | 30,000.00 |
| Share the database online and also publish in print media | Database shared | Cooperative society | 20,000.00 |
| Come up with information collection to generate a hides and skins pricing index | | | |
| Activities | | | |
| <i>Based on the database above, design a protocol for chain players to submit average monthly prices per grade</i> | <i>Protocol designed and data collected monthly through electronic media</i> | <i>Chain agents and the Hides and Skins supervision agent</i> | <i>5,000.00</i> |
| <i>Analyze the average price and construct a price index</i> | <i>Data analyzed and the price index constructed</i> | <i>Designated Ministry</i> | |
| <i>Publish the index in print, TV and radio and on the Ministry's website</i> | <i>The index published</i> | <i>Designated Ministry</i> | <i>20,000.00</i> |
| Sub total | | | 2,174,000.00 |

4.4.2. Objective 2: Improve the Performance of SMEs who are currently involved in the Production of Footwear and Leather Goods through the CPC Methodology

The future of the leather value chain with regard to value addition, that is in the production of footwear and leather garments, is set to be championed by SMEs who are currently operating in backyards and markets with no or limited institutional and technical support from private, quasi and government institutions. These SMEs hold a lot of potential; however their work is plagued with a plethora of challenges ranging from unstable supply of finished leather and accessories, inadequate machinery and tools, inadequate technical skills and entrepreneurship and unsuitable operating premises and also lack of visibility. In summary they face all facets of business problems, that is supply, production, demand side challenges, consequently they face high transaction costs, which have constrained them to operate below breakeven point, thus forcing them to overprice to remain in business. The overpricing has reduced the demand of their products, as they are not able to compete with foreign suppliers, in formal markets and government procurement.

The second objective's aim is to implement activities that would improve the performance of SMEs with regard to productivity, standards and quality, volume of output, profitability, national and regional market penetration. To stimulate the improvement/growth of these aspects, interventions should address the identified constraints.

The identified Sub-objectives are to improve the:

- Technical/production skills of SMEs;
- Productivity of SMEs
- Quality and standards of the SMEs products
- SMEs access to working Capital;
- Supply of leather and other accessories;
- Visibility of SMEs;
- SMEs access to Government procurement and
- Develop SMEs Clusters

The activities, which should be implemented in order to attain the sub objectives listed above, are summarized Table 37 below. In addition measurable outputs, the budget estimate for the activities and the collaborating stakeholders are also included for easier reference and implementation.

Table 37: Objective Two: Improve the Performance of SMEs who are currently involved in the Production of Footwear and Leather Goods through the CPC Methodology

| Objective 2: Improve the Performance of SMEs who are currently involved in the Production of Footwear and Leather Goods | | | |
|--|--|---|------------------------|
| Sub-Objectives and Activities | Expected Output | Stakeholders | Budget Estimate |
| Develop SMEs Clusters through the CPC Methodology; | | | |
| Activities | | | |
| Create an inventory of SMEs, by their geographical location | Inventory created | SMEs, Rwanda Development Board, Local Authorities or technical colleges. | 20,000.00 |
| Cluster SMEs based on geographical proximity | <ul style="list-style-type: none"> The number of SMEs clustered The number of Cluster established | SMEs, Rwanda Development Board, Local Authorities or technical colleges. | 5,000.00 |
| Provide common premises and shared machines to other districts, as the case in Gatsibo CPC | <ul style="list-style-type: none"> The number of cluster groups allocated with common operational premises; Area space allocated to clusters | SMEs, Rwanda Development Board, Local Authorities or technical colleges. | 1,500,000.00 |
| Implement the cluster management excellence circle | Number of cluster groups trained in cluster management excellence circle | COMESA/LLPI, SMEs, Rwanda Development Board, Local Authorities or technical colleges. | 100,000.00 |
| Organize joint procurement, production and market of common products | The volume or value of business transacted | COMESA/LLPI, SMEs, Rwanda Development Board, Local Authorities or technical colleges | |
| Improve the technical/production skills of SMEs; | | | |
| Activities | | | |
| <ul style="list-style-type: none"> Design basic, certificate and diploma footwear/leather goods production curriculum | Curriculum designed and approved with relevant government institute | COMESA/LLPI, Ministry of Education and Vocational/Technical Colleges | 35,000.00 |
| <ul style="list-style-type: none"> Train 500 SMEs in basic footwear/leather goods production course | Number of people trained | COMESA/LLPI, Ministry of Education and Vocational/Technical Colleges | 1,000,000.00 |
| <ul style="list-style-type: none"> Train 100 supervisors and owners/managers of SMEs in certificate and diploma level courses | Number of people trained | COMESA/LLPI, Ministry of Education and Vocational/Technical Colleges | 1,000,000.00 |
| Improve the productivity of SMEs | | | |
| Activities | | | |
| <ul style="list-style-type: none"> Asses the productivity of SMEs | Assessment undertaken and report shared with referred stakeholders | COMESA/LLPI, Ministry of Education and Vocational/Technical Colleges | 20,000.00 |
| <ul style="list-style-type: none"> Design a productivity improvement course for supervisors/managers/owners of SMEs | The course designed and approved by the relevant institutions | C COMESA/LLPI, Ministry of Education and Vocational/Technical Colleges | |
| <ul style="list-style-type: none"> Train supervisors/managers/owners if SMEs in productivity improvement course | Number of people trained | COMESA/LLPI, Ministry of Education and Vocational/Technical Colleges | 100,000.00 |
| <ul style="list-style-type: none"> Organize exposure visits for supervisors/managers/owners if SMEs | Visits organized to Ethiopia, India and Italy | COMESA/LLPI, Ministry of Education and Vocational/Technical Colleges | 100,000.00 |
| Improve the quality and standards of the SMEs products | | | |
| Activities | | | |
| Develop footwear standards for Rwanda | Footwear standards developed and adopted | Biro of Standards, COMESA/LLPI | 10,000.00 |
| Raise awareness about the standards | Number of pamphlets circulated and news paper publications | Biro of Standards | 20,000.00 |
| Hold short course for SMEs to improve their production in order to meet the set standards | Number of people trained | Biro of Standards | 150,000.00 |
| Evaluate SMEs products and certify those which meet the set standards | Number of SMEs evaluated | Biro of Standards | 20,000.00 |

| Objective 2: Improve the Performance of SMEs who are currently involved in the Production of Footwear and Leather Goods | | | |
|---|---|--|------------------------|
| Sub-Objectives and Activities | Expected Output | Stakeholders | Budget Estimate |
| Improve the SMEs access to Working Capital; | | | |
| Activities | | | |
| <i>Design suitable loan facilities in consultation with SMEs and financial institutions</i> | <i>The facility designed and financed</i> | <i>Ministry of Finance, SMEs representatives and Financial institutions</i> | <i>1,000.00</i> |
| <i>Raise awareness on the availability of the loan facilities</i> | <i>Awareness raised</i> | | <i>500.00</i> |
| <i>Design a system to monitor the usage and repayment of the advance loans</i> | <ul style="list-style-type: none"> • <i>Number of SMEs benefited from the facility</i> • <i>Amount disbursed</i> • <i>Ratio of performing loans</i> | | <i>10,000.00</i> |
| <i>Review and Evaluate the performance of the loan facility</i> | <i>Report produced</i> | | 10,000.00 |
| <i>Implement the recommendation of the review process</i> | <i>The revolving fund, improved based on the recommendation of the evaluation process</i> | <i>Independent Consultants</i> | |
| Improve the Supply of leather and other accessories, through the CPC; | | | |
| Activities | | | |
| <ul style="list-style-type: none"> • <i>Based on the inventory of SME quantified the leather, soles and other accessories required</i> | <i>The required material procured with a two months lead time</i> | <i>SMEs, RDB, RDF, Rwanda Revenue Authority</i> | |
| <ul style="list-style-type: none"> • <i>Import in bulk and stock these materials in the common production premises of clusters</i> | <i>Total value of material imported</i> | <i>SMEs, RDB, RDF, Rwanda Revenue Authority</i> | 1,000,000.00 |
| <ul style="list-style-type: none"> • <i>Advance materials on credit based to SMEs, based on the special loan finance for SMEs</i> | <i>Total material purchased on cash or credit by SMEs</i> | <i>SMEs, RDB, RDF, Rwanda Revenue Authority</i> | |
| Improve the visibility of SMEs; | | | |
| Activities | | | |
| <i>Organize Mini Fairs in their locality to coincide with public holidays</i> | <i>Number of mini fairs organized per annum</i> | <i>SMEs, RDB, Ministry of Information</i> | <i>200,000.00</i> |
| <i>Develop documentary of the operations of the SMEs</i> | <i>Documentary broadcasted on TV and shared with other stakeholders</i> | <i>SMEs, RDB, Ministry of Information</i> | <i>50,000.00</i> |
| <i>Promote formation of National Associations of SMEs</i> | <i>National and regional associations based on clusters formed.</i> | <i>SMEs, RDB</i> | |
| Improve the SMEs access to Government Procurement | | | |
| Activities | | | |
| <i>Consult Government institutions such as police, military & other institutions on their minimum footwear standards</i> | <i>Agreed footwear minimum standards for supplying the various departments</i> | <i>Bureau of standards, RDB. RDF and potential customers (police, military, hospitals etc)</i> | |
| <i>Support the SMEs to produce samples, to meet the minimum standards</i> | <ul style="list-style-type: none"> • <i>Technical support offered to SMEs to meet the set standards;</i> • <i>Samples that meet the set standards produced and certified by the customers</i> | <i>Bureau of standards, RDB. RDF and potential customers (police, military, hospitals etc)</i> | <i>20,000.00</i> |
| <i>Negotiate with Government Tender Board to allocate a specific amount of their annual order to SMEs</i> | <i>The quota is agreed</i> | <i>Bureau of standards, RDB. RDF and potential customers (police, military, hospitals etc)</i> | |
| <i>Based on the organized cluster organize joint production to meet the government orders.</i> | <ul style="list-style-type: none"> • <i>Number of pairs produced and accepted by the relevant purchasing institutions</i> | <i>SMEs clusters and their coordinators</i> | |
| <i>Evaluate the process</i> | <i>The process reviewed and recommendations shared</i> | <i>Independent consultants</i> | <i>5,000.00</i> |
| <i>Improve the quality and the lead delivery time</i> | <i>Recommendations implemented</i> | <i>All Core Stakeholders</i> | <i>20,000.00</i> |
| Sub-total | | | 5,396,500.00 |

4.4.3. Objective 3: Develop an Industrial Park for the Leather Industry

Rwanda's resource base on raw hides and skins is small in comparison to its main neighbors; however its hides and skins are generally rated to be of better quality. Currently no tannery is operating in Rwanda. The two, tanneries closed down, for reasons which border on two aspects as shared during the stakeholders consultations; failure to meet environment regulation because of their proximity to residential areas and also to other food related industries; thinning gross profit margins due stiff competition from hides and skins exports; beyond these other internal factors are not known. The primary issue that needs to be addressed by Government is the construction of a leather industry park, which can be shared by other heavy industries. Thus the two existing tanneries can then be trans-located into the industrial park. Burundi, which has a smaller livestock base, has an operational tannery, which started producing finished leather early 2014, thus the potential of operating a viable tannery in Rwanda is there. The establishment of an industrial park with common effluent treatment plant, would reduce tanneries operational cost and also make these tanneries to meet the Rwanda and global environment standards. The meeting of the later would be an important marketing tool, as Rwanda products, would be acceptable in international sophisticated markets, which place meeting environmental standards as one of the minimum entry requirements in such markets.

The identified Sub-objectives are:

- Undertake technical and environmental feasibility study of the area designated in Gatsibo;
- Come up with the design of the industrial park, including all the relevant infrastructure requirements: electricity, water and common effluent treatment plants;
- Undertake financial feasibility assessment;
- Mobilize resources to construct the industrial park in phases;
- Construct the industrial park

Table 38: Objective 3: Develop an Industrial Park for the Leather Industry

| Objective 3: Develop an Industrial Park for the Leather Industry | | | |
|---|--------------------------------------|---|----------------------------------|
| Sub-Objective and Activities | Expected Output | Stakeholders | Budget Estimate |
| Undertake technical, environmental and financial feasibility study of the area designated in Gatsibo; | | | |
| Activities | | | |
| • <i>Design Terms of Reference the Technical and Environmental Feasibility Study</i> | <i>ToRs designed and approved</i> | <i>Environment Agency</i> | 5,000,00 |
| • <i>Invite tenders for potential Consultants</i> | <i>Tender Submitted</i> | <i>Rwanda Procurement Authority</i> | 2,000,00 |
| • <i>Adjudicate and hire consultants</i> | <i>Tender Awarded</i> | <i>Rwanda Procurement Authority</i> | 500,00 |
| Come up with the design of the industrial park, including all the relevant infrastructure requirements: electricity, water and common effluent treatment plants; | | | |
| Activities | | | |
| • <i>Design Terms of Reference the Technical and Environmental Feasibility Study</i> | <i>ToRs designed and approved</i> | <i>Environment Agency</i> | 5,000,00 |
| • <i>Invite tenders for potential Consultants</i> | <i>Tender Submitted</i> | <i>Rwanda Procurement Authority, RDB</i> | 2,000,00 |
| • <i>Adjudicate and hire consultants</i> | <i>Tender Awarded</i> | <i>Rwanda Procurement Authority, RDB</i> | 100,000,00 |
| Mobilise resources to construct the industrial park in phases | | | |
| Activities | | | |
| • <i>Design the funding partnership between Government with Private Sector</i> | <i>Design completed and approved</i> | <i>Ministry of Finance</i> | 10,000.00 |
| • <i>Submit the funding proposals</i> | <i>Proposals submitted</i> | <i>Ministry of Finance, PTA bank, Africa Development Bank, or any other regional or international agencies.</i> | |
| Construct the industrial park | | | |
| Activities | | | |
| • <i>Invite tenders to construct the park</i> | <i>Tenders awarded</i> | <i>Rwanda Procurement Authority</i> | 10,000.00 |
| • <i>Construct the industrial park</i> | <i>Construction completed</i> | <i>Ministry or Department of Public Works</i> | To be based on feasibility study |
| • <i>Allocate premises to Industrialists</i> | | <i>Ministry or Department of Public Works and Rwanda Procurement Authority</i> | |
| Sub total | | | 120,000.00 |
| Grand Total | | | 8,233,500.00 |

Note the Grand Total budget excludes the cost of constructing an Industrial Park

4.4.4. Objective 4: Improve Institutional, Policy, Financial Support and Market Intelligence

Institutions are fundamental in any development process. These could be sector associations, quasi and or Government institutions, which are both proactive and responsive to the needs of the chain players in the leather sector. The development of a strong sector association is pivotal in dealing with policy issues and other collaborations aspects which are necessary for improving the performance of the industry. In countries where the leather sector has grown significantly associations have played a significant role in collaborating and interfacing with national institutions in policy development. Policy support is very important, and policies needs to be evaluated as they are implemented. The interface between policy implementation and the development of strong association is very important. The implementation of strategies and policies is not the mandate of the line Ministry or government department only; however the private sector should play a significant role in ensuring that they deliver the targets set in the Policy Strategy. Thus a Task force which is composed of chain players and key Government institutions to review the implementation of the Strategy quarterly in the first year then biannual in subsequent years must be established.

Resources should be allocated for the implementation of this Strategy. It is imperative that the Ministry of Industry and Commerce must prepare a budget annually and submit to the Ministry of Finance to support the implementation of this Strategy.

Decision making in the Public and Private sector must be supported by verifiable empirical data, thus it is imperative that a system of collecting data from all the chain players is made mandatory, and should be submitted monthly through electronic means. The generated data would be used to boost the visibility of the sector and also to assess the impact of the implementation of the Strategy. This is important because the Ministry of Finance requires quantitative impact indicators for them to undertake Cost Benefit Analysis for supporting any sector.

The identified sub-objectives are to:

- Set up a National Task Force to monitor and review the implementation of the strategy;
- The Ministry of Industry and Commerce to lobby for a budget allocation to support the implementation of the strategy;
- Ministry of Industry and Commerce to hire field officers to offer extension support to the SMEs in areas of procurement, production, marketing and quality assurance;
- Review the strategy implementation regularly;
- Develop a database on output, turnover and employment creation of the SMEs.

Table 39: Improve Institutional, Policy, Financial Support and Market Intelligence

| Objective 4: Improve Institutional, Policy, Financial Support and Market Intelligence | | | |
|--|---|---|-------------------|
| Sub-Objective and Activities | Expected Output | Stakeholders | Budget Estimate |
| Set up a National Task Force to monitor and review the implementation of the strategy; | | | |
| Activities | | | |
| • <i>Design the ToRs of the Task Force</i> | <i>ToRs designed and approved</i> | <i>SMEs and relevant institutions</i> | <i>0.000.00</i> |
| • <i>Select the Member of the Task force</i> | <i>Members Selected</i> | <i>SMEs and relevant institutions</i> | <i>0.000.00</i> |
| • <i>Appoint Task force</i> | <i>The task force</i> | <i>SMEs and relevant institutions</i> | <i>0.000.00</i> |
| • <i>Meet the task force and agree on the work program</i> | <i>Work program designed and agreed</i> | <i>SMEs and relevant institutions</i> | <i>20,000.00</i> |
| The Ministry of Industry and Commerce to lobby for a budget allocation to support the implementation of the strategy | | | |
| Activities | | | |
| Ministry of Industry and Commerce to hire field officers to offer extension support to the SMEs in areas of procurement, production, marketing and quality assurance; | | | |
| Activities | | | |
| <i>Design job descriptions or widen the job scope of existing officers</i> | Approved job descriptions | Ministry or Government Department responsible for Public Services | 5,000.00 |
| <i>Design a field work program of the officers</i> | Field work plan implemented | MINCOM | 288,000.00 |
| <i>Review the impact of activities quarterly</i> | Review report and new action plan | MINICOM | 50,000.00 |
| To review the strategy implementation regularly | | | |
| Activities | | | |
| Review the strategy | Review report and new action plan | All relevant Stakeholders | 150,000.00 |
| Review relevant policies' impact on the performance of the sector | Review report and new action plan | All relevant Stakeholders | |
| Develop a database on output, turnover and employment creation of the SMEs. | | | |
| Activities | | | |
| • <i>Design simple data collection instruments</i> | <i>Instrument approved</i> | <i>MINCOM</i> | <i>0.000.00</i> |
| • <i>Hold meetings with the SMEs, to build the capacity to complete the forms</i> | <i>SMEs trained</i> | <i>MINCOM</i> | <i>20,000.00</i> |
| • <i>Upload collected data on the website</i> | <i>Data collected, analyzed and uploaded on website</i> | <i>MINCOM</i> | <i>10,000.00</i> |
| Subtotal | | | 543,000.00 |

4.5. Implementation Methodology of the Strategy

The implementation of the strategy would be led and coordinated by the Ministry of Trade and Industry in collaboration with relevant stakeholders: other Government Ministries, Regional and International Organizations, the Private Sector and other stakeholders. Thus it is imperative that a National Task Force or Core Team be set, whose mandate would be drive, monitor and review the implementation of the strategy. The Ministry of Trade and Industry would spearhead the implementation of the strategy in collaboration with other Ministries, Private Sector, Regional and International Organizations and other national institutions. The implementation structure recognizes the two way flow of information and activities, however the MINICOM would be the lead Ministry to support the industrialization of the leather value chain in Rwanda, see Figure 8.

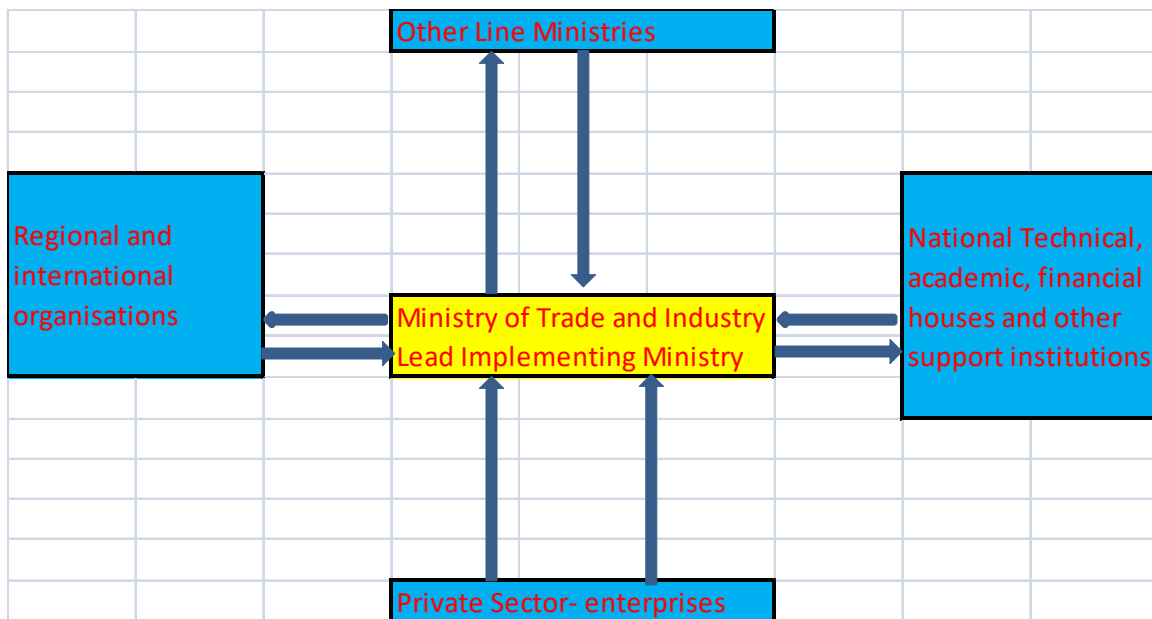


Figure 10: Implementation Structure

4.6. Conclusion

The success of this strategy would be based on the commitment of implementation, monitoring and reviewing progress. In addition collaboration among the identified stakeholders would ensure that that the implementation is holistic and, thus takes into consideration all the facets of growth and development.