UGANDA LEATHER VALUE CHAIN STRATEGY

(2015 - 2025)

APRIL 2015

COMESA
Leather and Leather Products Institute
(COMESA/LLPI)

VISION

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

MISSION

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

FOREWORD

Uganda has achieved an impressive record of sustained economic growth and stability over the last two decades. While agriculture is the core of the economy and the primary source of employment, exploiting agribusiness opportunities through value addition to the primary agricultural products earns better returns and creates more jobs. Leather and leather products is one of the value chains that has been identified to have tremendous potential for creating employment, foreign exchange earnings, and has the capacity to attract profitable investments.

In spite of Uganda's natural endowment that facilitates the production of good quality hides and skins, there are a number of challenges that the leather and leather products value chain encounters. These challenges include inadequate extension services in animal husbandry, insufficient investment in value addition to manufacture leather and leather products and use of rudimentary and inefficient technology leading to low productivity, inadequate adaption of cleaner technology and lack of competitiveness.

The Uganda Leather Value Chain Strategy was developed through a participatory approach involving all key stakeholders in the value chain. The Strategy aims at implementing activities that will boost the leather industry to achieve its potential. The main thrust is toattract investment in value addition to produce finished leather and leather products. The Strategy also focuses on resource mobilization to upgrade technology in leather processing, leather products development and waste management through the development of requisite skills. The success is envisioned in the implementation of both vertical and horizontal collaboration for the development of the leather sector in Uganda.

I wish to express my gratitude to all those who worked tirelessly to produce the Uganda Leather Value Chain Strategy.

FOR GOD AND MY COUNTRY

Amelia Kyambadde (MP)

MINISTER OF TRADE INDUSTRY AND CO-OPERATIVES

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

EXECUTIVE SUMMARY

The development agenda of Uganda is summed by its Vision 2040, which reads "**A Transformed Ugandan Society from a Peasant to a Modern and Prosperous Country within 30 years"**. According to Vision 2040, the transformation process would be driven by oil and gas, tourism, ICT, abundant labour force, geographical location, trade, water resources, industrialization and agriculture among other sub-sectors that are currently under-exploited.

The GDP of Uganda stood at USD 21.48 billion according to the 2013 figures, which is an improvement from the 2012 level of USD 20.03 billion. The Ugandan economy is one of the few African economies to have a balanced GDP composition. The agricultural sector shows a marked disparity when the work force involved is compared to the sector's contribution to the GDP. The sector employs 82% of the labor force but contributes only 22.2% of the GDP growth. On the contrary, the industrial sector recruits only 5% of labor but adds 25.1% to the annual GDP. The service sector of the Ugandan economy is in a transitional phase of development. The sector employs 13% of the working population and contributes 52.8% to the GDP growth.

The Ugandan leather value chain has a very good resource base; the national livestock population[1] was estimated to comprise of 11.4 million cattle, 12.5 million goats, 3.4 million sheep, 3.2 million pigs and 37.4 million poultry. With off-take rates[2] in the range of 12-15% for cattle, and 20-30% for sheep and goats, the potential raw material available in Uganda is about 1.4 million cattle hides and about 3.1 million goat and 0.68 million sheep skins per annum. Fish, especially Nile Perch, also provides a good source of fish skins tanning industry. Ostrich and crocodile farming provide valuable skins which are used as high-end source of leather.

The key dynamics issues currently obtaining in the Ugandan leather value chain are as follows:

- The quality of hides and skins being produced in Uganda is deteriorating due to multiple factors;

- The market for finished products in Uganda is growing astronomically, as reflected by a sharp increase in imports over the past ten years i.e. footwear imports grew from USD 6 million to USD 35.5 million in the period 2001 to 2013;

- Continuous export of wet blue was costing the country in terms of forgone revenue earnings;

- The export tax on the export of raw hides and skins has contributed to export earnings of HS Chapter 41 from USD 25 million to USD 64 million in the period 2001 to 2013;

[1] Livestock Census (UBOS 2008)
[2] Off-take rate: is defined as the proportion of livestock sold over a given period of time from defined population

- The imposition of an export tax was associated with an adjustment lag of seven years, which saw Uganda losing USD 83 million in the period of seven years;

- The rapidly expanding SMEs subsector producing finished products are forced to depend on imported leather, which was raising its costs of production, consequently undermining its competitiveness domestically and externally;
- The quality of footwear and leather goods being produced in Uganda is being undermined because of the use of poor quality leather and the shortage of suitable tools, equipment and machinery;

- Absence of suitable finance is undermining the growth of SMEs involved in the production of finished products;

- Lack or inadequate horizontal and vertical collaboration among Value Chain Agents, was undermining the optimization of the available resources;

- Limited collaboration of core value chain agents with peripheral stakeholders such as academia, quality and standards development organizations, financial institutions and development partners among others, is undermining growth of the sector.

The above dynamics have influenced the formulation of the following objectives, which have a logical link to address the causes of the challenges, which are currently impacting negatively on the performance of the Ugandan Leather Value chain:

- To facilitate the production of quality value added leather and leather products for local and export markets;

- To facilitate resource mobilization and policy support for the growth of the value chain;

- To promote cleaner and environmentally sustainable production techniques and systems; and

- To facilitate horizontal and vertical collaboration of chain players and other relevant stakeholders.

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

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

CHAPTER I: CONTEXT SETTING

1. Introduction

The development agenda of Uganda is summed by its Vision 2040, which reads "**A Transformed Ugandan Society from a Peasant to a Modern and Prosperous Country within 30 years"**. According to Vision 2040, the transformation process would be driven by oil and gas, tourism, ICT, abundant labour force, geographical location, trade, water resources, industrialization and agriculture among other sub-sectors that are currently under-exploited. The vision recognizes the following as key constraints that are undermining the growth and development of Uganda:

- Low Competitiveness
- Weak public sector management and administration
- Ideological disorientation
- Low industrialization and value addition
- Corruption
- Slow accumulation of modern infrastructure
- Inadequate human resource
- Low level of saving and inadequate revenue collection
- Unfavorable Demographics Profile

It is imperative to note that this leather value chain strategy responds to some of the issues listed above. For instance it seeks to enhance the competitiveness of the leather value chain, promote industrialization and value addition, and build the capacity on manpower involved in the leather value chain. This, therefore, demonstrates that the leather value chain strategy is poised to contribute positively to Uganda's Vision 2040. This is in line with a statement on page 12 of Vision 2040, which reads "In essence, all Ministries, Departments and autonomous and semi-autonomous entities will realign their development priorities with the Vision"

The success indicator of Vision 2040 envisages a rapid growth in GDP and GDP per capita, for example, the latter is projected to grow from USD 506 (2010) to USD 9,500 (2040). In the same vein the leather value chain strategy calls for value addition, through the production of finished leather, leather goods and footwear in Uganda, which would directly contribute to envisaged GDP growth and per capita expansion

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

1.1. Structure of the Economy and Sector Performance

Uganda's economic structure depends significantly on agriculture with coffee being the most important export commodity. The country is adequately endowed with natural resources as well, such as fertile soils, sufficient rain and adequate mineral deposits of copper, gold and cobalt. The recently discovered oil resource will make a significant contribution to the economy.

The GDP of Uganda stood at USD 21.48 billion according to the 2013 figures, which is an improvement from the 20128 level of USD 20.03 billion. The Ugandan economy is one of the few African economies to have a balanced GDP composition. The agricultural sector shows a marked disparity when the work force involved is compared to the sector's contribution to the GDP. The sector employs 82% of the labor force but contributes only 22.2% of the GDP growth. On the contrary, the industrial sector recruits only 5% of labor but adds 25.1% to the annual GDP. The service sector of the Ugandan economy is in a transitional phase of development. The sector employs 13% of the working population and contributes 52.8% to the GDP growth

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

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

The four main objectives of the Ugandan Leather Value Chain Strategy are:

- To facilitate the production of quality value added leather and leather products for local and export markets;
- To facilitate resource mobilization and policy support for the growth of the leather value chain;
- To promote cleaner and environmentally sustainable production techniques and systems; and
- To facilitate horizontal and vertical collaboration of chain players and other relevant stakeholders

1.2.1. National Industrial Policy

The Uganda National Industrial Policy (UNIP) provides long-term perspectives needed for the country to achieve sustained transformation of the economy. Uganda's economic transformation is anchored on industrialization; and the application of Science, Technology, and Innovation, as the main driver and prime agent. In the same breath, this leather value chain strategy aims to contribute to the industrialization agenda of Uganda, by facilitating the production and trading of value added products that would generate increased revenue and jobs creation. Table 1 below illustrates the strategic links, which this strategy has with the National Industrial Policy of Uganda.

Table 1: The Strategy Relationship with National Industrial Policy

	The Relationship between National Industrial Policy and the Leather Strategy			
	Objective one	**Objective Two**	**Objective Three**	**Objective Four**
Create a business friendly environment for private sector-led industrialisation in which industries will develop, improve productivity and the quality of products through, inter alia, creativity and innovation and become more competitive in the global economy.	X			X
Improve infrastructure development for effective and efficient industrialisation program.				
Encourage and foster innovation, entrepreneurship, adjustment and adoption of best management practices in the quest for improved competitiveness.	X			
Create a framework that supports joint participation of the public and private sectors in the development of scientific and technological competencies for the production of more and higher value added goods and services for domestic consumption and export.	X			
Facilitate improved supply chain efficiency and market responsive product and brand development.	X			
Encourage foreign direct investment in industry and industry related services.	X			
Promote environmentally sustainable industrial development to reinforce national goals of long-term growth and development.			X	
Support the growth and development of a skilled and productive labour force and to ensure that a body of experienced entrepreneurs and trained managers are particularly focused on industrial development.	X	X		
Promote safe work place practices in all industry sub-sectors.	X			
Promote the participation of disadvantaged sections of society in industrial development activities.	X			
Create support systems for sustainable micro and small industries development.	X			

1.2.2. Ugandan National Trade Policy

The overall mission of the Ugandan National Trade Policy is to develop and nurture Private Sector competitiveness, and to support the productive sectors of the economy to trade at both domestic and international levels, with the ultimate objective of creating wealth, employment, enhancing social welfare and transforming Uganda from a poor peasant society into a modern and prosperous society. Thus the mission of the Ugandan Trade Policy has a positive strategic fit with the leather value chain strategy, whose vision is to boost the competitiveness of the leather value chain. Table 2 below illustrates the specific linkages between the leather value chain objectives and the guiding principles of the Trade Policy.

Table 2: The Strategy Relationship with the Export Strategy

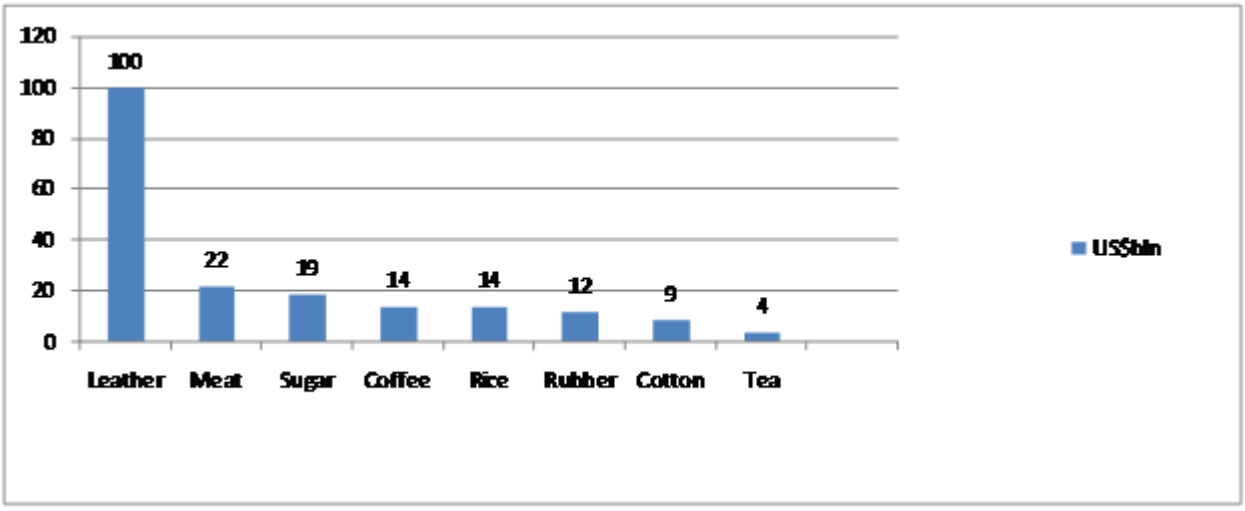
Vision 2020 Objectives	**The Relationship between Uganda Trade Policy and the Leather Strategy**			
	Objective One	**Objective Two**	**Objective Three**	**Objective Four**
Development of both domestic and international trade	X			
Creating opportunities for equal participation in trade through entrepreneurial development, giving priority to the socially and economically disadvantaged groups in society	X			
Provision of an enabling environment with a view to developing and nurturing a private sector that is capable of competing at global level	X			
Targeted Government interventions in specific sectors, if and as deemed necessary		X		X
Pursuit of bilateral, regional and multilateral trade initiatives	X			
Mitigating any adverse effects of practices by the country's trading partners by invoking and implementing trade defense measures as and when appropriate, taking into account multilateral disciplines in the area	X			

Vision 2020 Objectives	The Relationship between Uganda Trade Policy and the Leather Strategy			
	Objective One	Objective Two	Objective Three	Objective Four
Efficiency, and prudent resource mobilization and utilization				X
A coordinated approach to formulation and implementation of trade policy				X
Placing greater emphasis on policy coherence, synergies and complementarities	X			
Nurturing and using a Public-Private Partnership approach in the formulation, implementation and monitoring of the National Trade Policy				X
Strengthen capacity to engage in, and advocate for Uganda's interests in and during, trade negotiations through improved organizational coordination and leadership, including at preparatory stage				X
Be mindful of the negative social and economic effects that might come with growth in trade, and ensure that mitigating measures and policies are put in place	X			
Supporting the country's vision to industrialize by complementing the Industrialization Policy.	X			

1.3. Importance of the Leather Value Chain

1.3.1. Global Level

The leather value chain globally is estimated at over USD 100 billion.[3] A comparison of this value chain with other commodities reveals that its trade is greater than the combined trade of meat, sugar, coffee and tea; see Figure 1 below. Despite this immense importance, the sector has not received much attention especially in many developing countries, when compared with other commodities, whose production and marketing are championed by institutional support, for example Meat Commission, Tea or Coffee Boards etc. The absence of an institutional support to the leather value chain has retarded its growth, as it has not attracted the desired policy and financial support from Central Governments and other relevant stakeholders. See Figure 1 below.



Source: Computed within COMESA/LLPI reports and FAO 2012

Figure 1: Global Importance of the Leather Value Chain

The global trade in the leather value chain grew over the period 1993 to 2011; the growth pattern for each product category is summarized in Table 3, below. There is

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

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

Table 3: Global Dynamics in the Trade of the Leather Value Chain

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

Source: FAO (2012)

1.3.2. COMESA Situation

The COMESA region is made up of 19 African countries, which owns approximately 11% and 21% of livestock globally and in Africa respectively; however its contribution to the global trade is estimated at a paltry 3%. This is attributed mainly to a number of factors ranging from pre[4]-, peri[5]- and post[6]-slaughter challenges and limited or no value addition to hides and skins produced in the region. Figure 2 below illustrates the inverse relationship between the relative significance of the COMESA region in the global value chain, as it progresses downstream. Note that the illustration in the figure below relates only to bovine animals and bovine light leather and footwear. The illustrated situation is a true reflection of what leather proportion is obtained with regards to other types of hides and skins.

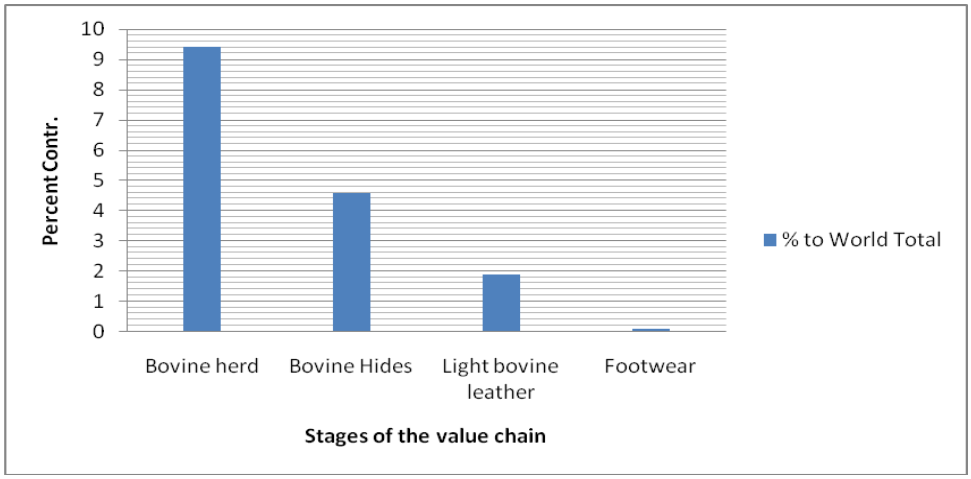


Figure 2: Stages of the Value Chain

The limited importance of COMESA in producing value added products, has a significant opportunity cost with regard to incomes and employment creation in the region. The continuous export of raw hides and skins implies a loss of wealth and jobs, which could have been generated in the region. It is fundamental that drastic measures should be taken to transform this industry in the COMESA region;

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

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

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

already there are noticeable improvements in the past 10 years in Ethiopia. Uganda and other countries in the region can therefore draw practical lessons from Ethiopia.

1.3.3. Market Size of Footwear in the COMESA Region

The COMESA region's market of footwear is estimated at 365 million pairs of shoes with a per capita of 0.85 pairs per annum. Assuming all these pairs of shoes are produced in the COMESA region, approximately 365,000 direct factory level jobs would be created, which would stimulated increased demand in the use of finished leather, soles, glues and other accessories consequently creating more indirect jobs. Total output of leather footwear in the COMESA region was estimated[7] at 80.6 and 92.3 million pairs in 2001 and 2011[8] respectively. The output figures exclude production from SMEs and other informal enterprises.

In 2012, USD 646 million worth of shoes were imported into the COMESA region from the rest of the world and this translates[9] 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, therefore, a market opportunity for SMEs to capitalize without any or limited competition from locally established firms and 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 in the COMESA region.

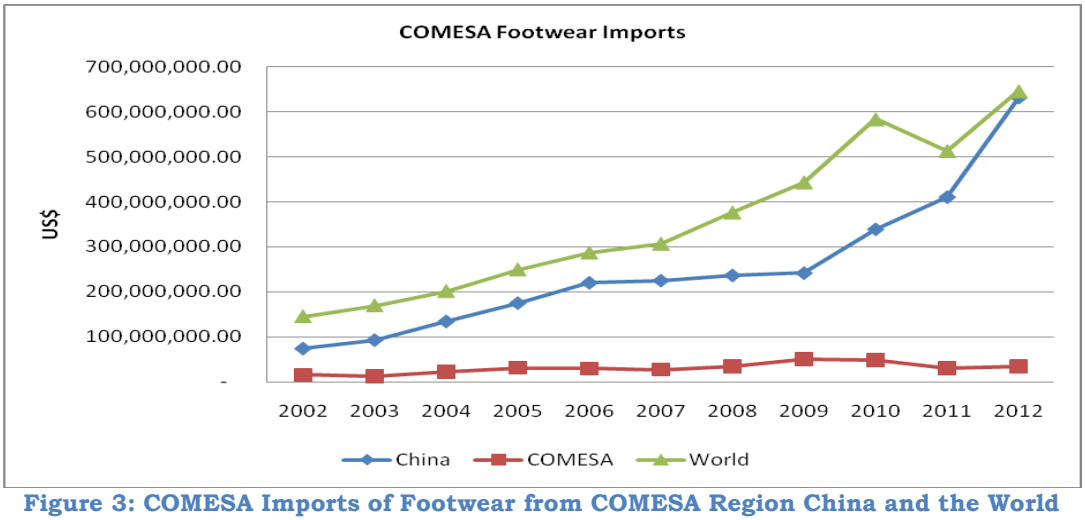


Figure 3: COMESA Imports of Footwear from COMESA Region China and the World

1.3.4. Uganda Situation

The Ugandan leather value chain has a very good resource base; the national livestock population[10] was estimated to comprise of 11.4 million cattle, 12.5 million goats, 3.4 million sheep, 3.2 million pigs and 37.4 million poultry. With off-take rates in the range of 12-15% for cattle, and 20-30% for sheep and goats, the potential raw material available in Uganda is about 1.4 million cattle hides and about 3.1 million goat and 0.68 million sheep skins per annum. Fish, especially

[7] FAO Compendium of Statistics
[8] FAO Compendium of Statistics
[9] Assuming that the import price of USD10 per pair
[10] Livestock Census (UBOS 2008)

Nile Perch, also provides a good source of fish skins tanning industry. Ostrich and crocodile farming's provide valuable skins which are used as for the source of leather.

Uganda has an installed tanning capacity of 1.08 and 2.0 million hides and skins respectively, and it is estimated that tanneries are operating at 60 to 70 percent capacity range because of financial constraints and machine breakdowns. Approximately 95 percent of processed hides and skins are exported as partly processed leather (wet blue). Prior to 2007, 90 percent of these hides and skins were being exported in raw state. In order to curtail the export of raw hides and skins, the Ugandan authorities introduced an export tax of 20% on the value of exported hides and skins in 2002. This was done in the East African countries in unison through their fiscal policy to pursue progressive value addition initiatives of the leather sector in the region. In retrospect, for Uganda this was further tightened to 40% in 2007, with minimum impact, subsequently the government reviewed the export taxation regime further by introducing a specific export tax of USD$0.8 per kg. Eventually this review had an impact and resulted to a dramatic reduction in hides exports. The impact of this policy is further elaborated in the next Chapter.

1.4. Conclusion

This Chapter has laid the foundation for generating a comprehensive understanding of the Uganda leather value chain, by looking at the structure of the economy, the relationship of some of the policies, with objectives of the leather value chain[11], global, regional and national situation of the leather value chain. The next Chapter adopts the value chain approach to identify and analyze the dynamics and constraints in the value chain.

[11] Presented in detail in the Chapter dealing with the Strategy

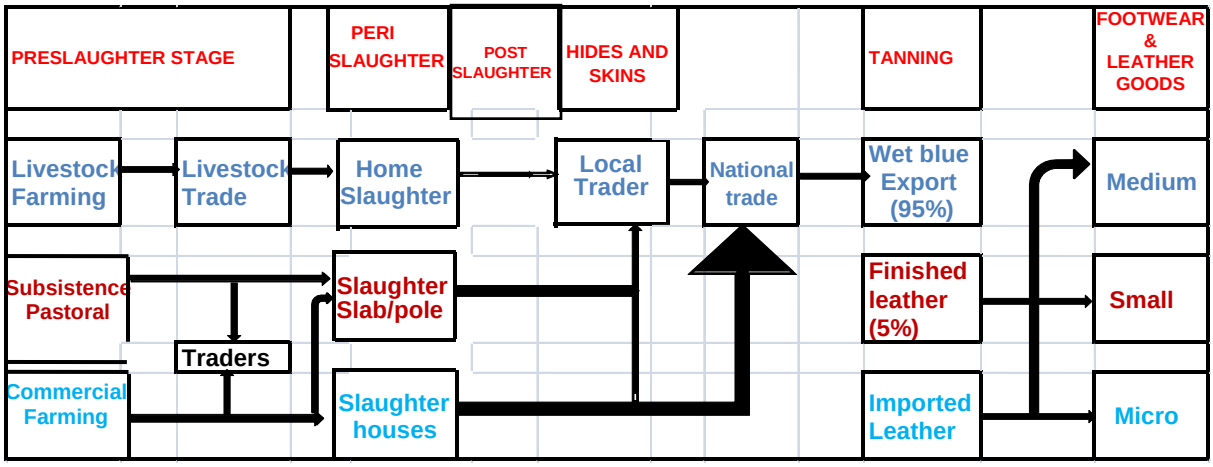
CHAPTER II: SITUATIONAL ANALYSIS OF THE VALUE CHAIN

2. Introduction

A situational analysis of the Uganda Leather Value Chain is presented in this Chapter. The following fundamental issues are analyzed using both primary and secondary data: value chain map; potential of the leather value chain; opportunities forgone due to the exporting of raw hides and skins and, wet blue; income distribution in the marketing of bovine hides; trade performance; situational analysis of SMEs in the footwear manufacturing subsector and a regional competitive comparative analysis. This analysis builds a foundation for identifying strategic interventions that are important in enhancing the performance of the Uganda leather value chain.

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 Uganda leather value is inclusive of livestock farmers, livestock traders, butcheries, slaughter facility owners, hides and skins traders and exporters, tanners and artisanal footwear and leather footwear and goods manufacturers. The schematic presentation of the leather value chain in Uganda is illustrated in the Figure 4 below.



Source: COMESA/LLPI after the National Stakeholders Workshop, Kampala, Uganda (2014)

Figure 4: Uganda Value Chain Map

According to stakeholders who participated in the Strategy formulation Consultation Workshop, which was held on 10-11 April 2014 in Kampala, Uganda indicated that the country has a significant proportion of livestock reared in the pastoralist system. Thus, contributing to a high incidence of pre-slaughter defects, which are associated with diseases (e.g. lumpy skin, poxes etc.), tick bites, scratches and brand marks amongst many others.

In the Uganda 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. In addition, they can be sold directly to hides and skins traders. Tanneries advance money to hides and skins merchants as a mechanism of securing supplies 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 bought. During the visits to the slaughter houses, it was reported that flayers are charged for inflicting damage on hides, however the impact of this action, has not registered significant results in reducing flay cuts and other related slaughter house based defects.

For instance, Tanners are still reporting flay cuts as the major defect on hides and skins produced in Uganda irrespective of the measures mentioned. This may indicate that slaughterhouse owners have a limited knowledge in assessing peri-slaughter damages, that the supervision is weak or there is need to strengthen training and awareness creation at both pre and peri slaughter phases.

2.2. Income Distribution in Hides and Skins Marketing

The relationship between income distribution and the level of contribution by each economic agent along the value chain is very important, as it contributes significantly on sustaining the efficiency of the value chain. Skewed distribution of income, which fails to offer a fair return on investment or contribution by any agent along the value chain, may undermine the effectiveness and efficiency in the performance of the chain.

This is mainly because economic agents who feel cheated may offer a compromised service, which they deem to be commensurate to the income they are receiving. For instance, hides and skins collectors may economize on the use of salt, thus downgrading the quality of hides and skins; low collection levels of hides and skins may be recorded, as hides produced far away from the collection centre may go uncollected, once the price paid, does not compensate for the increased transport cost. A simulation of the amount of gross margin earned at each level of the value chain in Uganda from the moment the hide is harvested from the carcass is illustrated in Figure 5

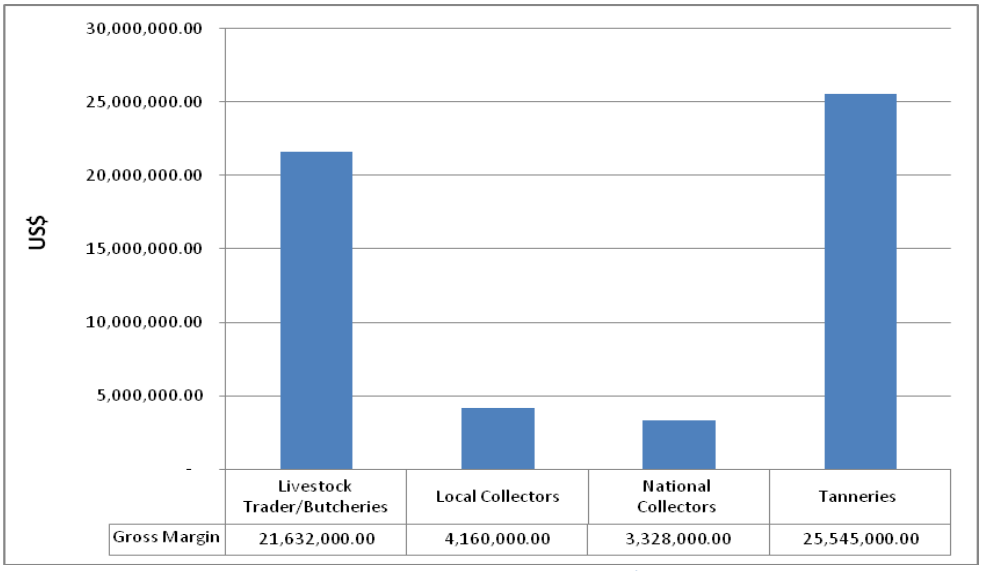


Figure 5: Gross Margin Distribution

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

Livestock traders/butchery owners, command the second highest gross margin earnings, because when they purchase livestock, the price excludes the fifth quarter[12]; thus they do not pay for it. Once the animal is flayed they sell the hides and skins in green state, before incurring any preservation cost.

Past projects have concentrated on supporting slaughterhouse owners to work on the reduction of flay cuts. The results have been disappointing, as the intervention focused on the wrong agent (slaughter house owner), who does not directly benefit from the marketing of the hide in instances, when hides and skins are not used as slaughter fees. The hides and skins are owned by the livestock trader, who in reality only pays to the farmer 60% of the live weight, and gets the hide, blood, bones, intestines/casings, fat and organs for free. Hence there is low economic incentive for the livestock trader to invest in ensuring that the quality of hides and skins is improved, as any amount he receives is a bonus.

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

2.3. The Potential of the Uganda Leather Value Chain

The export of raw hides/skins, wet blue and crust entails forgone opportunities with regard to value addition, which could have been attained in Uganda. Put simply, the export of wet blue means the exportation of jobs, foreign currency earning opportunities and other indirect benefits, which could have been generated in Uganda had the large proportion hides and skins been transformed into finished leather. In addition, more losses are incurred due to the resultant production of low quality hides and skins, which fetches lower prices in the international markets. As it was reported, the prevalence of pre, peri and post slaughter defects was very high in Uganda this renders more than 60% of hides and skins produced to be categorized to grade three or worse.

A partial equilibrium model was employed to compute the potential losses that Uganda was incurring per annum due to pre, peri and post slaughter defects and the export of 95% plus of total hides and skins in the country in wet blue state. Based on the hides and skins production of 2012, the Uganda leather value chain has the potential of reaching a minimum direct value of USD 270 million per annum.

Gross losses incurred due to the prevalence of pre, peri and post slaughter defects were computed based on equation 1, and the apportionment between pre and peri/post slaughter defects was based on a study by Mwinyihija[13] (2014), which found out that 48% and 52% of defects are attributed to pre and peri and post slaughter defects respectively. The losses incurred on bovine, sheep and goats

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

hides and skins are based on the same equation. See equation 1 below, which was used in the computations of gross pre, peri and post slaughter defects.

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

Where

G_1 is 100% first grade
P_n prices with respect to grades 1 to 6
a to f: Ratios of grades of hides
TQ: Total output of hides by a country

Table 4: Estimates of Pre, Peri- and Post-Slaughter Defects on Bovine Hides and Goats/Sheep Skins

Type of Hides/Skins	Potential Earnings Assuming all Hides are First Grade	Actual Earnings	Loss	Pre-slaughter	Peri and post slaughter losses
Apportionment Ratio				0.48	0.42
Bovine	10,170,000	5,989,000	4,181,000	1,756,020	2,424,980
Goat and Sheep	7,680,000	5,019,600	2,660,400	1,276,992	1,383,408
Total Estimated Loss	**17,850,000**	**11,008,600**	**4,181,000**	**3,033,012**	**3,808,388**

Source: Computations based on FAO data.

The losses, which are incurred due to non value addition, are illustrated in the Table 5 below. The value addition threshold that is expected per stage is shown in the last column of the Table below. The cumulative loss is estimated at USD 228 million, with regard to the second level of loss, which is associated with non value addition. If the loss associated with pre-, peri- and past-slaughter defects, which is illustrated in the table above is taken into account the total loss is estimated at USD 232 million per annum.

Table 5: Value Addition Potential and Estimated Losses

Stage of Processing	Potential Earnings	Current Actual Earnings	Estimated Losses	Value Addition Threshold
Raw hides and Skins Current Value	22,829,111			1
Wet Blue	45,658,222	41,530,085	4,128,137	2
Crust	68,487,333	684,873	67,802,460	3
Finished Leather	79,901,889	799,019	79,102,870	4
Finished Products	273,949,332	2,739,493	271,209,839	12
Cumulative Loss			228,195,862	

2.4. 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

As of 2013, the country had 7 small- and medium-sized tanneries that had an installed capacity of 1,290,000 hides and 4,150,000 skins per annum that are operational at 50-60% capacity utilization. Only the Leather Industries of Uganda processes hides and skins up to finished leather. There are also many cottage tanneries distributed countrywide that mostly do vegetable tanning[14].

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

In the production of wet blue, raw hides and skins commands 85% 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 margin[15] of tanning operations.

According to FAO (2009)[16], a Gross Margin of 25-35% and greater than 45% is considered normal and robust respectively. The Ugandan tanning sector is earning an average of 56% gross margin, reflecting a very high profitability potential. The Table below illustrates the costs breakdown in the production of hides and skins equivalent to 58,000-60,000sqft

Table 6: 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 Uganda it was reported that a large proportion of hides and skins were traded at uniform price irrespective of grade category. This situation discourages quality improvement among the primary producers and collectors of hides and skins. Thus the tendency would be for hides and skins collectors to under-salt, as a measure of preserving their profit margin, however on the other hand, this would raise the tanning production cost upwards and thereby squeeze profit margins, as they process poor quality hides and skins.

The Figure below illustrates two important points that the cost of tanning increases as the quality of hides and skins deteriorates. Secondly, there is also a positive correlation between yield and hides and skins quality; as the quality declines the yield also decline. The cost of tanning a kilogram of hides and skins rises from USD0.8 to USD1.6, from first to the fifth grade respectively; consequently the yield

[14] Draft Policy Document, Ministry of Trade, Industry and Cooperatives
[15] **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).
[16] FAO Agribusiness Handbook (2009)

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.

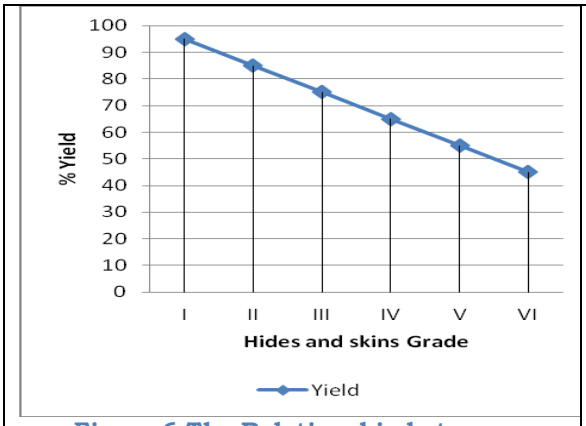


Figure 6:The Relationship between Hides/Skins Grades and Yield

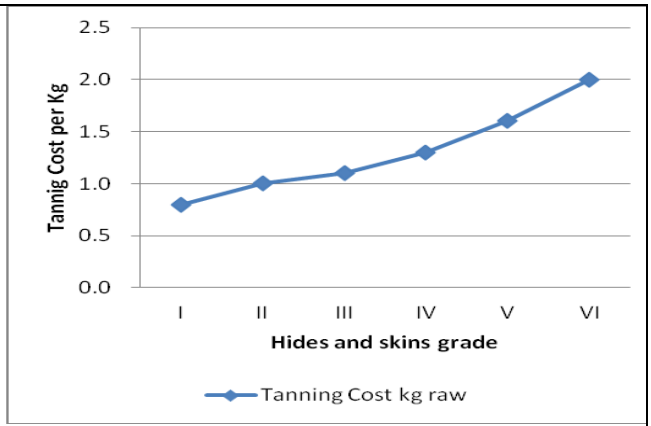


Figure 7: The Relationship between Tanning Cost and Hides and Skins Grade

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

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.

2.5. Situational Analysis of SMEs in the Footwear Industry

2.5.1. Overview of the Footwear Supply Chain in Uganda

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

Table 7: Summary of Uganda's Footwear Supply Chain

INPUTS	IMPORTANCE	SITUATION IN UGANDA
Finished leather	It contributes 50% in terms of value to footwear with leather uppers, thus this is the main input.	Production of finished leather in Uganda is limited and the available material is of poor quality. It was reported that the cut value of the leather is very low, because of defects affecting the grain layers (e.g.holes etc.) and also the leather is very hard, brittle and it cracks during lasting. Leather is imported from Kenya at 0% under the EAC and also from Ethiopia at Most

INPUTS	IMPORTANCE	SITUATION IN UGANDA
		Favoured Nation (MFN) rate less 10%. The importation of leather is fragmented, as it is done mainly from cross border traders, who also purchase it from markets in Kenya. Consequently the imported leather is also of poor quality. This challenge can be addressed through joint procurement between SMEs direct from tanneries from neighboring countries. This would enhance the competitiveness of the SMEs, as the leather cut value will improve, consequently reducing their cost of production and improve on competitiveness.
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 Uganda, however, at the moment most of SMEs who are operating, do not have cutting machines, and use cutting knives. Only a few medium sized enterprises have cutting machines, and they also have the capacity to import these cutting dies.
Lasts	A **last** is a mechanical form/mould that has a shape similar to that of a human foot. Without a last footwear manufacturing is next to impossible	No local production in Uganda, 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. This is an area which again requires joint action and also support from technical institutes and engineering industry.
Heels/soles	Second important component of a shoe after leather.	There is limited local production in Uganda; however there is limited variety and also low quality. This is an area requiring technical support from the local university to support the production of soles.
Accessories	Important especially for finishing sandals and other types of footwear. (rivets and buckles)	No local production in Uganda

Source: Stakeholders Consultations by COMESA/LLPI

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

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

2.5.2. The Structure of the Industry

The Uganda Footwear Manufacturing Industry is dominated by small enterprises, which operate in backyards, markets and homes. Of the twenty enterprises visited, only four are owned by women; however, it is fundamental to note that in the 60 percent of the enterprises that were visited the presence of women in production is very visible. This matter is even confirmed by the fact that the current Chairperson of the SMEs Association of leather and leather products is female. Table 8, summarizes the gender distribution.

Table 8: Gender Distribution

Gender	Percentage
Female	80
Male	20
Total	**100**

The majority of enterprise owners are under the age of 50 years, with the 50% and 40% in the 36 to 50 years and 26 to 35 years age group respectively. This scenario is quite encouraging as these people still have a future to look forward to. They have young families, which requires their support and this would motivate them to work very hard. Most of the workers employed by these SMEs are in the 20 to 35 years age group and are also looking forward to establish their own enterprises, once they have saved enough to purchase their own tools and machinery. This is a reflection of the growth potential of the subsector. The Figure below displays the age distributions of the SMEs who were interviewed during the survey.

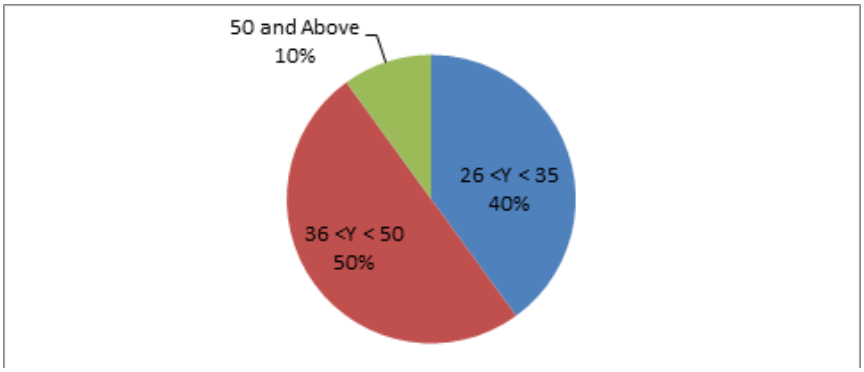


Figure 8: Summary by Age Group of Entrepreneurs

The educational level of the footwear and leather goods artisans in Uganda is very high, all the respondents that were interviewed have attained secondary school and 40 percent of them have attained a diploma/university degree. This scenario places this sector on a sound educational background, which makes it easier for these enterprises to learn and adapt to new hardware and soft skills. This situation was confirmed also by the fact that University graduates are enrolling to train in footwear technology at the training centre in Uganda. The table below summarizes the educational level of the enterprises.

Table 9: Education Profile of the SMEs

Educational Level	Percentage
Secondary	60
Degreed/Diploma	40
Total	**100**

The majority of the owners of the footwear and leather products SMEs have received vocational technical training in footwear and leather products manufacturing from the Training and Common Facility Centre (TCFC). Out of the twenty respondents 90 percent hold a certificate in footwear and leather products.

These enterprise owners were also trained in Training of Trainers course in footwear and leather products manufacturing. This dimension has boosted the skills level in Uganda as all new recruits are being trained on the job. The LLPI's team observed youths being trained by enterprise owners in both Luzira and Kitintale markets. Figure below displays the distribution on the sources of skills

Table 10: Source of Footwear Production Skills

Source of Skills	Percentage
Self-taught	0
Learning from friends & relatives	0
From previous job	10
Vocational	90
Other	0
Total	**100**

2.5.3. Source of Capital

The majority of SMEs in the footwear and leather products subsector have not received a bank loan to finance their businesses start-up. The model of financing start up of small footwear and leather goods enterprises in Uganda was influenced by the training and mentoring model which was championed by the TCFC. After completing the training course it was reported that most trainees had no capital to start their own business, as a stop gap measure, trainees were allowed to use the college facilities to make their own goods at a small fee.

Most of these trainees raised money to buy their tools and basic machines by selling these small products, which ranged from wallets, belts and sandals. This led them to start their own business operations. This has built a solid base for the new enterprises and also enabled the training centre to continue to offer training programmes. The Training Centre's role was critical as trainings continued even in times when enrolments were below economic viability levels and the donor support had elapsed. For further details see Table 11 below.

Table 11: Source of Capital Profile

Source	Percentage
Friends and Relatives	0
Own Savings	75
Bank Loan	25
Retirement package	0
Other	0
Total	**100**

2.5.4. Identified Constraints

All the respondents considered the shortage of finance and use of old and rudimentary equipment as major constraints that have hampered the production of quality products and productivity. Eighty-five percent regarded the poor state and lack of necessary machinery as the main factor that was undermining the manufacturing of quality products.

The absence of a common working facility impacted negatively on SMEs visibility as some of them were operating in their back yards and in vegetable markets. Most of the enterprises are of the view that a centralized working space would assist to solve a lot of their challenges through collaboration and sharing of the equipment,

knowledge and skills. Furthermore, this would improve on the visibility of these enterprises that would in turn boost their turnover, capacity utilization and competiveness. The overall impact to the economy would be employment creation and enhancement of the livelihoods of the owners and workers. For details see the Figure 9 below.

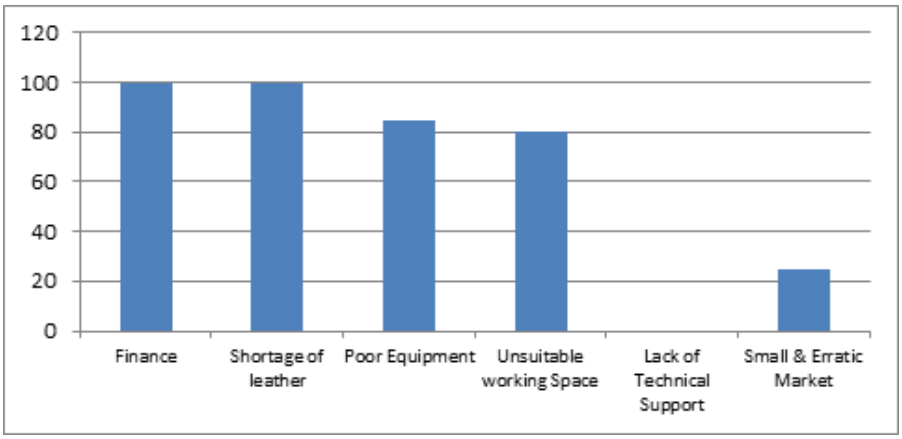


Figure 9: Summary of Constraints

2.5.5. Main Inputs and Products

The inputs used in the production of footwear are leather, soles, glue and other accessories as listed in the Table 12 below. The direct material cost of the shoes produced by SMEs range from a minimum of USD 3.64 for sandals to a maximum of USD 14.8 for boots per pair.

The main cost input is leather, which contributes 40.7 per cent, followed by soles at 31.8 percent. The price of school shoes soles is relatively lower than the rest of the other soles types and this is attributed to an innovation that was accomplished by the TCFC. They designed a school shoes sole, which is very durable and relatively light despite the fact that it is being produced using mainly recycled materials. The Ugandan footwear SMEs are very competitive domestically in the production of school shoes. For example, the average price in most shops in Kampala for similar product is selling at a price of USD 20. At an ex-factory price of USD 6.04 per pair, SMEs have the capacity to penetrate the market if they are supported from both the supply and demand side. See details for the cost breakdown in Table 12.

Table 12: Costing of Footwear

	USD			
Materials	**Back to School**	**Boots**	**Sandal**	**Average**
Leather	2.24	4.7	3.04	3.33
Soles	1.6	6.2	0	2.60
Insole	0.19	0.33	0	0.17
Shanks	0.2	0.2	0	0.13
Glue white	0.4	0.48	0.25	0.38
Glue Neoprene	0.3	0.4	0	0.23
Toe Puff front	0.19	0.2	0	0.13
Back counter	0.29	0.32	0	0.20
Shoelaces	0.25	0.32	0	0.19
Eyelets	0.05	1.28	0	0.44
Machine Thread	0.02	0.03	0	0.02
Sock Lining	0.28	0.3	0	0.19

	USD			
Materials	**Back to School**	**Boots**	**Sandal**	**Average**
Polish	0.03	0.04	0.05	0.04
Colour	0	0	0.3	0.10
Total	**6.04**	**14.8**	**3.64**	**8.16**

The detailed cost breakdown for direct material inputs are illustrated in the Figure 9 below. The two main costs centre on leather and soles as alluded to before. In order to enhance competitiveness in the footwear industry there is a need to increase the production of finished leather in Uganda. The shortage of finished leather has pushed the prices from Ugx3000 (USD 1.6) to Ugx4000 (USD 1.6) per square foot leather. Yet, Uganda has a very good raw material base to address this challenge.

The main products being produced by the SMEs are sandals, school shoes and security boots; however most of the enterprises are in a position to manufacture other types of footwear such as, fashion shoes and gloves.

Eighty percent of the enterprises are currently producing a combination of school shoes, boots, sandals and men fashion shoes. These products are mainly seasonal; the turnover of school shoes is high in December and January and also around school opening periods during the year.

Sandals have become a year rounder product given the fairly warm weather of Uganda and also because this product is being exported across Africa (Sudan, Zambia, Kenya, Rwanda and Tanzania). Sandals and other leather products such as ladies bags and wallets have found niche markets in Europe, USA and Lebanon. See details in the Figure 10 below.

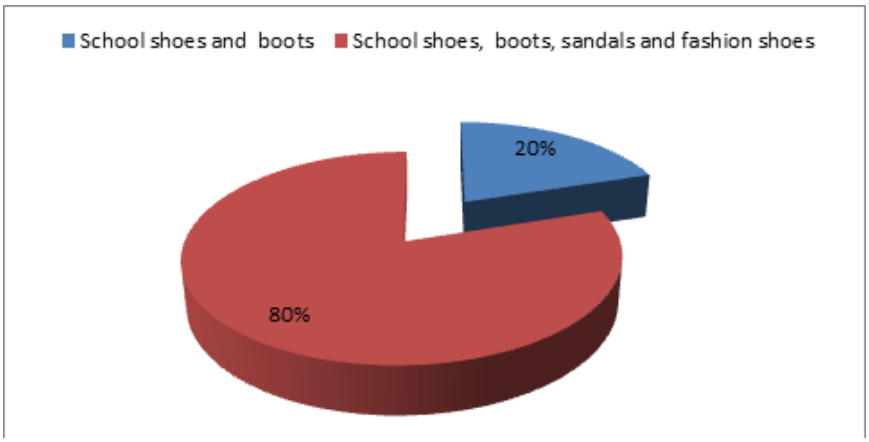


Figure 10: Models Combinations by Enterprises

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

The enterprises operating in the footwear clusters are facing major challenges with respect to machinery and tools; all the enterprises reported that they were operating with inadequate and outdated machinery and equipment. About 80% considered their machines and equipment to be unreliable and costly to maintain.

Whereas the enterprises want to purchase new machines they are constrained by lack of funds. The unreliability of the stitching machines in particular impact negatively on the durability of the products and also results in distorted stitching patterns. Furthermore, it undermines the productivity of the enterprises because of the slow speed and high frequency of breakdowns of the machines.

The quality of the shoes with regard to shape, variety and comfort is greatly compromised in Uganda because enterprises are facing an acute shortage of shoe lasts (moulds) as they are using one mould to produce different kinds of shoes.

According to Leng and Du (2005), a shoe last represents the approximate shape of the human foot, and is very important in the whole shoe making process. A good last for shoe production has the same importance as a good foundation for the stability of a house. It is responsible for the product fitness as well as the footwear style. A last is used in both the beginning and end process of constructing shoes. See the details of the responses in the Figure 11 below:

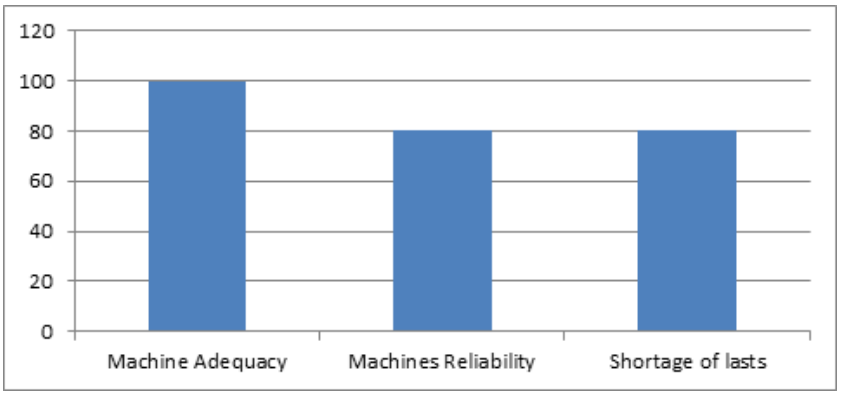


Figure 11: Machinery Adequacy, Reliability and Shortage of Lasts

The situation with regard to machine combination is fairly good, with close to 70 percent of the respondents operating, with industrial sewing, roughing machines and tools. However most of the sewing machines are very old and are prone to frequent breakdown as they were bought as second or third hand and thus have outlived their economic life. Hundred percent of the enterprises have roughing machines, which are being fabricated in Uganda, through reverse engineering.

This innovation is quite evident in Uganda than in other COMESA Member States. This is an important learning point for other countries. See details in the Table 13 below.

Table 13: Summary of Machine Combination per Enterprise

Machine Combination per Enterprise	Percentage
Domestic sewing machine, roughing machine & tools	10
Industrial manual/electrical machine, roughing machine & tools	70
Full set of Machines	20
Total	**100**

Given the machinery gap summarized in the Table 13 above, enterprises were asked to list the machinery they immediately require to boost their productivity, quality and durability of their products. Eighty percent of the enterprises pointed out that it was imperative that they acquire industrial stitching, skiving, sole press machines and lasts. It is worthy to note that the number required for skiving and sole press machines maybe reduced once these enterprises are operating within the

same industrial complex. This is due to sharing of the machines and equipment rather than individual ownership.

As such, it would not make economic sense for each enterprise to own skiving and sole press machines, given their current scale of operation. Table 14 below summarizes the machines and equipment requirements of the twenty enterprises and the total cost involved.

Table 14: Summary of Machine Requirements

Machines	Responses			Total Market Value	
	Possible	Actual	Percentage	Unit Price	Total
Industrial Stitching machine	20	16	80	3,500	56,000
Skiving machine	20	16	80	2,000	32,000
Sole Press machine	20	16	80	10,000	160,000
Tools	20	16	80	2,000	32,000
Lasts	20	16	80	1,000	16,000
Total					296,000

The machine requirements for SMEs across Uganda in the Footwear and leather goods segment can be extrapolated based on the Table above.

2.5.7. Gross Margin and Break-Even Analysis

The gross margin calculation is central in gauging the viability of a business, because every business must generate enough cash to buy raw materials, pay employees and all expenses. This margin also demonstrates a firm's ability to translate sales dollars into profit. A healthy business must generate more cash than it consumes. If it does not, it will lapse. So the stream of cash that flows into a business is the gross profit. The higher the gross profit margin, the larger the stream.

The lower the gross profit margin, the smaller the stream of cash available to fund business operations and investment in future growth. Enterprises in Uganda are generating a minimum and a maximum gross profit margin of 20.2 and 40.7 % per pair respectively, as illustrated in the Table below. Sandals are the most profitable, generating a gross margin of 40.7% and boots has the lowest at 20.2 percent. See details in the Table 15 below.

Table 15: Gross Profit Margin per Unit

Shoe Type	Production Cost per Unit (USD)	Ex factory Price per Unit (USD)	Gross Profit per Unit (USD)	Gross Margin (%)
Back to School	8.8	10.6	1.8	20.5
Boots	20.3	24.4	4.1	20.2
Sandals	7.15	10.7	3.55	49.7
Man office	20	28	8	40
Average	**14.1**	**18.4**	**4.3**	**32.6**

In order to gauge whether these enterprises are viable it is critical to compute their break-even point and then compare with their current output levels. The break-even quantities and profitability of each footwear model are shown in the table below. Men's office shoes have the least break-even quantity and back-to-school has the highest. Sandals are the most profitable product at USD 4,705 per month, and office shoes are the least at USD 957 per month at the current levels of capacity utilization. Details of profitability per type of footwear at current and installed capacity utilization levels are illustrated Table 16 below.

Table 16: Break-Even Analysis and Net Profit per Month

Average	Back -to -School		Men Office Shoes		Military Boots		Sandals	
Capacity Utilization	**Installed**	**Current**	**Installed**	**Current**	**Installed**	**Current**	**Installed**	**Current**
Fixed Costs	750	750	750	750	750	750	750	750
Variable Cost per Unit	6.04	6.04	18	18	14.8	14.8	3.64	3.64
Selling Price per Unit	10.6	10.6	28	28	24.4	24.4	10.7	10.7
Break- Even Qty per Month	164	164	75	75	78	78	106	106
Net Profit per Month	**4,320**	**1,894**	**2,996**	**957**	**4,438**	**4,438**	**8,600**	**4,705**

The net profit margin shows how much of each sale in dollar shows up as net income after all expenses are paid. For example, if the net profit margin is 5% that means 5 cents of every dollar is profit. The net profit ratio for the four shoes models is positive at the current capacity utilization levels. Figure 12 below shows the net profit comparison when firms are operating at either 100% or the current capacity utilization level of 60 percent.

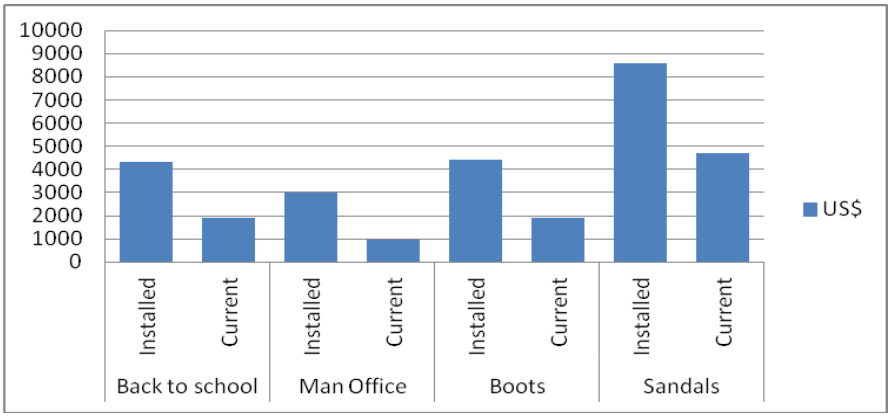


Figure 12: SMEs profitability by Shoe Model

Figure 11 illustrates that footwear artisans can easily increase their profitability by expanding their volumes towards the installed capacity utilization levels. This could be achieved by boosting productivity and also increased support in the procurement of inputs, to minimize time lost in the procurement process.

2.5.8. Banking, Loan Requirements and Repayment Capacity

2.5.8.1. SMEs Relationships with Banks

The enterprises, which were interviewed in all the sites, have a strong relationship with banks, as 100 hold bank accounts. This is in contrast with the situation observed in other COMESA countries. This is a healthy situation, because a relationship between SMEs and banks exist and this can further be strengthened. For details see Table 17 below.

Table 17: SMEs Relationships with Banks

Holding a Bank Account	Responses		
	Possible	**Actual**	**Percentage**
YES	20	20	100
NO	20	0	0

2.5.8.2. Loan Requirements and Repayments Capacity

The loan requirements of the SMEs are based on the machinery requirements, which were illustrated in Table 16. The total loan requirement for the group of 16

enterprises is estimated at USD 249, 600. This implies an average minimum loan per enterprise of USD 15, 600.

However this loan requirement maybe reduced by ensuring that equipment such as skiving and sole press machines are centralized and shared by enterprises. The centralized machines may be owned by different enterprises within the cluster that will then extend a service for a fee to other enterprises. This will reduce the minimum loan requirement for capital to USD 6, 500, which will cater for the industrial sewing machine, lasts and tools. This loan requirement is subjected to loan repayment capacity (sensitivity analysis) based on their profitability margin estimated in the Table below. An array of interest rates is used ranging from 5 to 25 percent. See the details in Table 18 below.

Table 18: Loan Repayments Capacity under Different Scenarios

Description	Back to school	Fashion Shoes	Boots	Sandals
Net profit per annum	22,728	11,484	53,256	56,460
Loan repayment @ 5% per annum	6 825	6 825	6 825	6 825
Net after loan repayment	**15 903**	**4 659**	**46 431**	**49 635**
Loan repayment @ 10% per annum	7 150	7 150	7 150	7 150
Net after loan repayment	**15 578**	**4 334**	**46 106**	**49 310**
Loan repayment @ 10% per annum	7 475	7 475	7 475	7 475
Net after loan repayment	**15 253**	**4 009**	**45 781**	**48 985**
Loan repayment @ 15% per annum	7 800	7 800	7 800	7 800
Net after loan repayment	14 928	3 684	45 456	48 660
Loan repayment @ 20% per annum	8 125	8 125	8 125	8 125
Net after loan repayment	14 603	3 359	45 131	48 335
Loan repayment @ 25% per annum	22,728	11,484	53,256	56,460
Net after loan repayment	**6 825**	**6 825**	**6 825**	**6 825**

Out of the four models of shoes, sandals and boots are the most profitable product lines. Back-to-school shoes demand and prices can easily be increased to around USD 15, as most of the established shops are selling similar products, which are less durable at USD 20 per pair in Kampala. If SMEs raises their prices of back-to-school shoes to USD 15, their net profitability ratio, would rise to 53 percent and make a net profit of USD 2,085 per month, which translates to USD 25,025 per annum. This situation would allow them to even repay commercial loans of 20 to 25 percent per annum. It is fundamental to point out that these SMEs can only be able to pay these loans if they are operating at full or near full capacity and they are also supported by government procurement, to ensure sales consistency.

2.6. Trade Analysis

2.6.1. Exports of Articles of Chapter 41 and the Impact of Export Tax

The export commodity of the Uganda value chain has been transformed from being predominantly raw hides and skins to wet blue; this is attributed to an export tax that was instituted ten years ago. The export value has grown two fold from 2001 to 2010. The period between 2001 and 2007, was associated with a drastic decline in the export value (amounting to USD 83 million) from the leather value chain; this was mainly because the existing tanneries could not immediately absorb the available raw hides and skins. The introduction of the export tax saw some of the prominent hides and skins exporters, establishing tanneries. The number of tanneries has increased from two to seven, and this has contributed to a steep increase in export earnings from USD 25 million in 2001, to USD 64 million in

2013. This development clearly demonstrates the positive impact of the export tax policy, however, with a lag of seven years.

In 2002, when the export tax was introduced, the export earnings took a nose dive, to as low as USD 5 million in 2003, from a peak of USD 25 million in 2001. In the period 2002-2007, the subsector export loss was valued at USD 83 million cumulatively. This was caused by the fact that when the policy was announced the industry had not installed wet blue machinery and equipment. The industry took seven years to fully recover, as it recorded export earnings of USD 25 million in 2010. The post 2010 period has witnessed a rapid growth in exports, which reached USD 63 million in 2013. In order to minimize losses associated with the reaction period, Policy makers should announce a road map in advance to prepare industrialist to make the necessary investment. It is thus recommended that export tax to encourage the production of finished leather should be designed in a manner that minimizes the adjustment costs to the industry and the country as a whole. For details see the Figure 13 and 14 below.

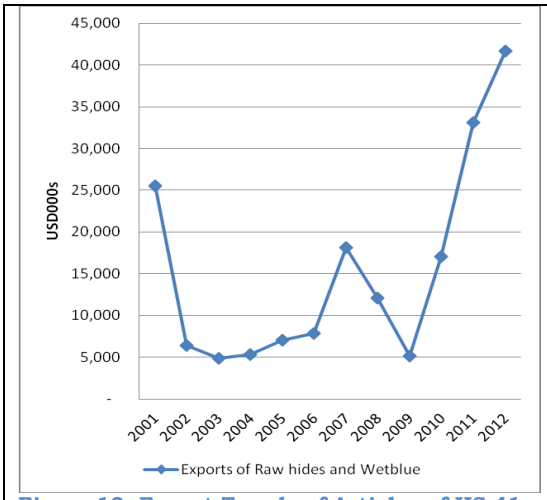


Figure 13: Export Trends of Articles of HS 41

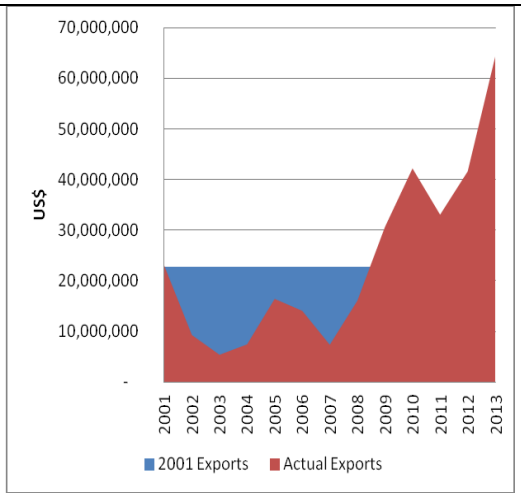


Figure 14: Losses Caused by the Policy Adjustment Lag

Source: COMESA/LLPI computed from ITC Trade Map

Despite the favourable raw materials base, Uganda manufacturers of footwear and leather products are facing an acute shortage of finished leather; this is because approximately 95 percent of the tanned hides and skins are being exported in wet blue form. During consultations with stakeholders, there was confirmation from the stakeholders, that there is a need for a policy direction to encourage the production of finished leather in Uganda. Without a policy signal, tanners would continue to produce wet blue, as this is a comfort commodity with a ready market globally. It was therefore recommended that a gradual export tax should be introduced on wet blue to signal the value addition goal. In order to minimize adjustment lag costs as alluded to before, this tax could start as low as 1% and rise in a sliding scale until it reaches punitive level in a period of five years.

2.6.2. Imports of Finished Leather and Footwear

Imports relate mainly to two commodities namely finished leather and footwear. Other imports include soles, accessories and machinery. In this section only leather and footwear imports are analyzed.

2.6.2.1. Finished Leather

As indicated earlier Uganda's production of finished leather is very low; consequently the multitude of SMEs depends on leather imported from Kenya and Ethiopia among other countries. The imports have registered a sharp increase from 2011 onwards and this period coincides with the period when COMESA/LLPI's started to actively support SMEs to participate in Regional Trade Fairs. However, most of the leather imports into Uganda are through informal channels, and is thus not reflected in official statistics. The sharp rise in formal imports is a clear indication of the formalization of SMEs operations in Uganda. Thus, in the short run there is a need to come up with a mechanism to support the bulk importation of leather and other accessories so as to improve accessibility and consequently reduce transaction costs of SMEs. See the imports dynamics of the finished leather in the Figure 15 below.

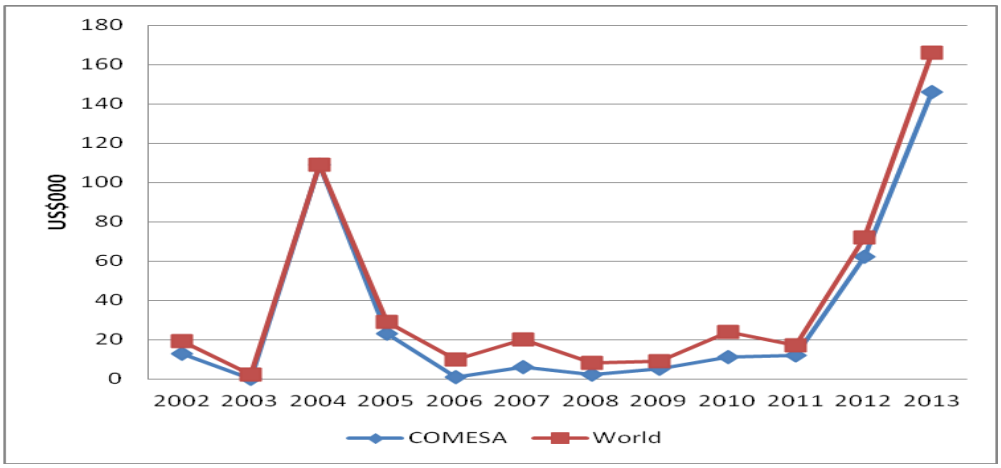


Figure 15: Figure 15: Trends in the Imports of Footwear by Uganda

2.6.2.2. Footwear

Imports of footwear have grown significantly from 2002 to 2013, mainly due to economic and population growth over the same period. The footwear import bill rose from around USD 7 million to around USD 35.5 million. This is a growth rate of over 500 percent in a period of five years. This is a good indication of the high footwear demand in Uganda at the back of limited production, which is mainly dominated with SMEs who are operating in backyards and markets. See the Figure 16 & 17 below.

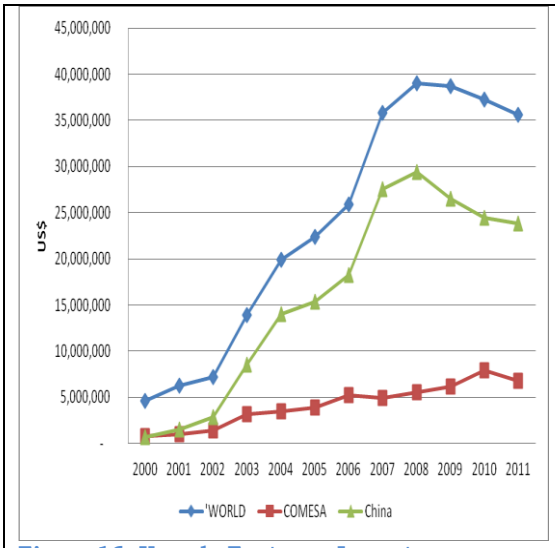


Figure 16: Uganda Footwear Imports

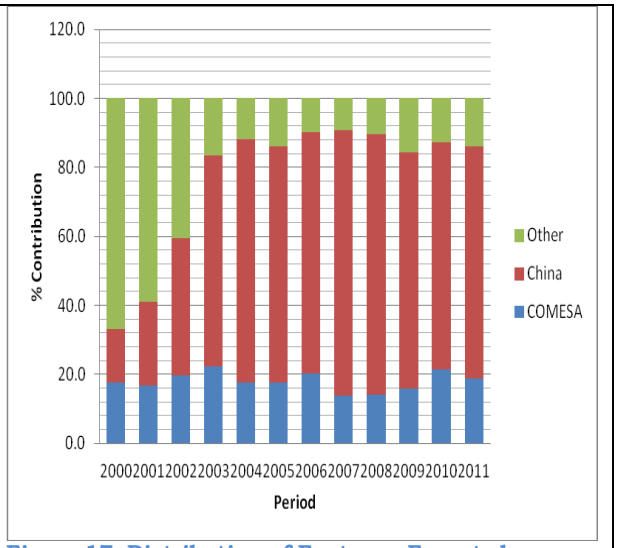


Figure 17: Distribution of Footwear Exports by Source

China's contribution has grown significantly from as low as 15.4% in 2000 to 67.1% in 2011. This growth have seen import from other third party countries declining from 67% to 14% in the period 2000 to 2013, however the imports from COMESA countries have remained generally stable.

Support in the development of SMEs Clusters is imperative; as the market for footwear is growing rapidly, this would create employment and also save foreign currency. It was reported in the Uganda Budget Statement of 2014, that the Current Account was weak due to the trade deficit which was projected to widen from USD 2 billion to USD 2.46 billion by close of the year. The same Budget Statement recognizes the importance of supporting the development of SMEs and also the consumption of locally produced goods and services.[17]

2.7. Regional Comparative analysis

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

2.7.1. Competiveness Analysis

Exports as a share of Total Exports (%): this index refers to the share of an industry's exports in relation to a country's total exports; hence it shows the importance of this industry in the national export portfolio. Uganda's index for chapter 41 stood at 1.77. Uganda is an important exporter of wet blue in the region, as its index is above the regional average of 1.5%. With regard to footwear exports, Uganda's ratio is below the regional average. These ratios could be raised if

[17] http://www.finance.go.ug/index.php/national-budget/budget-framework-papers.html

Uganda adds value to its wet blue to crust or up to finished leather and support the production of footwear and leather-goods.

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 Uganda are almost at par with regional averages; however it is less than those of Egypt, Ethiopia and Kenya.

Growth of Export in Value (% PA): This index is based on the least squares method, shows the average annual percentage growth of export values over the most recent 5-year period. Industry with rapid export growth in value terms suggest that the country is competitive on the world markets, while stagnant or declining growth rates indicate the reverse. Everything else being equal, fast growing exports, even in small absolute numbers, point at product groups for which the country has a particular export potential. Uganda's chapter 41 ratio displays rapid growth, which is above the regional average; this therefore reflects that the value chain holds great potential for Uganda. See details in the Table 19 below.

Table 19: Summary of Competitiveness Indicators of Uganda and other COMESA States

Country	Contr. To total Export (%)		Contr. To total World Export (%)		National Growth rate (%)		Revealed Comparative Advantage Index		Lafay Index	
Chapters	**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
Uganda	1.56	0.04	0.09	0	30	-14	9,2	0.1	1	0
Average	**1.5**	**0.3**	**0.1**	**0.0**	**12.8**	**15.8**	**9.0**	**0.3**	**0.6**	**0.0**

Source: ITC

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

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

If it takes a value of less than 1, this implies that the country is not specialized in exporting the product. Similarly, if the index exceeds 1, this implies that the country is specialized in exporting the item. Chapter 41 exports stands at 10.4, which reflects that Uganda is specializing in the export of the given commodity, and its performance is above the regional average, which stands at 9.

2.7.2. Trade Policy Comparison

Uganda's trade policy, as reflected by the main trade instruments MFA and preferential tariffs are not significantly different from some of the selected

comparators listed in the table below. However this policy fails to take into consideration the fact that Uganda is not producing finished leather whereas some of the other countries listed in the table produce finished leather. The set import duty raises the cost of imported leather. See details in the table 20 below.

Table 20: Trade Policy Comparison

Countries	MFN (%)		Ethiopia (%)		COMESA/FTA (%)		EAC/SADC (%)	
HS	**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

Source: ITC Market Access

2.7.3. Trade Policy on Hides and Skins

The trade policies on hides and skins export currently obtained in selected regional countries, and the actual impact, which have been registered in the past years are summarized in the Table 21 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 21: Summary of the Policies and Impact

Country	Nature of Policy	Recorded Impact	General Comment
Ethiopia	Punitive export tax on raw hides and skins up to crust leather.	The sector has grown significantly, with approximately 28 tanneries operating and a sizeable number of footwear making factories and thousands of SMEs	The implementation of such a policy should be supported by competent institutions and complimented with other support measures. In some of the countries, which have implemented this kind of policy there has been reports of hides and skins being exported through second party countries (smuggling)
Kenya	Export tax on raw hides and skins	The industry is showing great recovery from the effects of Economic Structural Adjustment, and exports from the sector has grown from USD10.6 million in 2001 to USD166 million in 2012, dominated by wet blue	
Uganda	Export tax on raw hides and skins	This has seen the number of tanneries rising from one to seven, and export value from USD25 in 2003 million to USD63 million in 2013	

2.8. Conclusion

This chapter has discussed and demonstrated quantitatively the issues pertaining to losses being incurred because of exporting wet-blue, and also the potential export earning if value addition is achieved in Uganda; trade dynamics, competiveness 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 Kampala Uganda.

CHAPTER III: PARTICIPATORY ANALYSIS OF THE VALUE CHAIN

3. Introduction

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

The Participatory Workshop was organized in Kampala and drew participants from the various segments of the value chain, from city and peri-urban areas of Kampala and, other districts of Uganda. The Workshop assisted in generating, moderating, collating and prioritizing of important issues. See below pictures, which were taken during the Stakeholders Participatory Workshop, which was held in Kampala, Uganda in March 2014.

3.1. Distribution of Workshop Participants

The Workshop participants were drawn from the various segments of the leather value chain, relevant Government Ministries, Departments and Agencies from Uganda. 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 Figures 18 and 19 below:

Figure 18: Group Discussion of Thematic Issues Identified in Plenary

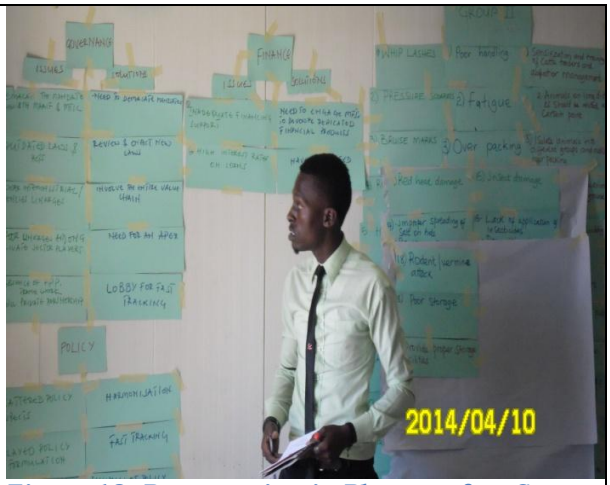


Figure 19: Presentation in Plenary after Group Discussions

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

The issues, which were generated during the stakeholders meetings, and also through one to one meetings with enterprises, are summarized in a SWOT analysis in Table 22 below, in form of a SWOT analysis. In addition, some of the issues were drawn from the Draft Policy Document, which was crafted by the Ministry of Trade, Industry and Cooperatives. The Workshop participants validated these issues, and

agreed that strategic interventions which directly respond to these issues should be re-crafted. Thus, the strategic intervention should seek to strengthen the **S**trengths, deal with the **W**eaknesses, capitalize on the **O**pportunities and tackle the **T**hreats. The SWOT analysis is summarized below in Table 22.

Table 22: SWOT Analysis of the Uganda Leather Value Chain

STAGES	STRENGTH	WEAKNESSES	OPPORTUNITIES	THREATS
CROSS CUTTING	• Government commitment • Available raw hides and skins; • Political stability	• Limited access to suitable finance; • High cost of finance in comparison to rate of return in the industry • Limited or lack of collaboration of chain players • Limited support or collaboration with Academia, Private and Government • Land locked; • Weak information systems • The Import Tariff Structure does not promote value addition • High inland transport cost (USD1600 per container from Jinja to Mombasa) Vs USD 700 from Mombasa to China	• Large scope for value • addition • Growing domestic, regional and international market for value added products • Renewed interest by Government to support the sector • Large pool of trainable work force	• Global Economic Slow down • Synthetic materials • Influx of second hand leather products
HIDES AND SKINS PRODUCTION	• Growing and diversified livestock base • Growing demand for meat, increasing the slaughter rates	• Weak or inadequate extension support • Poor handling of live animals; • Weak animal husbandry system • Poor slaughter facilities • Poor flaying and conservation techniques; • Poor quality of hides and skins • No or inadequate collaboration as there is no Association for Livestock Traders, Butcheries and Hides and Skins Collectors; • Absence of a structured system to support the production of quality hides and skins; • Uniform price on hides and skins irrespective of grade	• New investment in slaughter facilities; • Renewed interest by Government to support the sector • Renewable resource • Readily available markets	• Contagious diseases & parasites • Hides and skins being smuggled to neighboring countries • Quality of hides and skins continues to deteriorate
TANNERIES	• Available Production Capacity to produce up to wet blue • Available work force • Availability of raw materials; • Export tax helping to improve the availability of raw hides and skins • Adequate installed capacity for the production of wet blue	• Inadequate technology, technical and production management skills; • Dependent on the importation of the bulk of the chemicals; • Most of the tanneries are located in an unsuitable environment • Poor environmental control; • Narrow product distribution channels • Limited or no interest to produce finished leather; • Absence of Government policy support to promote production of finished leather; • Small market size for finished leather in Uganda;	• Growing domestic and regional demand for finished leather • Policy and legal support • Room for improvement; • Niche markets for rabbit and fish leather; • High value addition opportunities from wet blue to finished leather • Growing international demand of leather products; • Renewed regional and international interest to support the industry • Government interest to develop a sector specific policy	• Environmental hazards, given the proximity to lake Victoria, may disrupt production • Increased competition from synthetic and imported products; • International markets view Uganda as a raw material supplier rather than finished leather; • Poor working standards, which are contra international labour standards in some of the tanneries • Growing market demand for footwear

STAGES	STRENGTH	WEAKNESSES	OPPORTUNITIES	THREATS
				• Production of by- products
MANUFACTRING	• Large pool of trainable human resources; • Good collaboration among footwear and leather goods manufactures	• Inadequate machinery and equipment • Limited availability of quality finished leather and accessories; • High cost of finance • Inadequate technical training facilities; • Limited collaboration with upstream and downstream chain players • Absence of a specific policy support • Absence or lack of qualified footwear and leather goods designers;	• Growing domestic and regional demand for finished leather • A big and growing market deficit for footwear; • The industry is still in infancy hence there is great potential for expansion; • Renewed interest to support the development of leather cluster regionally and internationally; • Government interest to develop a sector specific policy; • Potential Government procurement for military, policies and other Government institutions	• Intense competition from cheaper imports from Far East;
SUPPORT INSTITUTIONS		• Under equipped Technical Training Centres • Limited interaction with National Standards Bureau; • Limited support and interaction with Academia; • No advanced specialized courses to support the leather value chain	• Renewed interest by Academic institutions to work with the sector	

3.3. Conclusion and Emerging Priority Intervention Areas

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

- The quality of hides and skins being produced in Uganda is deteriorating;
- The market for finished products in Uganda is growing astronomically, as reflected by a sharp increase in imports over the past ten years i.e. footwear imports grew from USD 6 million to USD 35.5 million in the period 2001 to 2013;
- Continuous export of wet blue was costing the country in terms of forgone revenue earnings;
- The export tax on the export of raw hides and skins has contributed to export earnings of HS Chapter 41 from USD 25 million to USD 64 million in the period 2001 to 2013;
- The imposition of an export tax was associated with an adjustment lag of seven years, which saw Uganda losing USD 83 million in the period of seven years;
- The rapidly expanding SMEs subsector producing finished products are forced to depend on imported leather, which was raising its costs of production, consequently undermining its competitiveness domestically and externally;
- The quality of footwear and leather goods being produced in Uganda is being undermined because of the use of poor quality leather and the shortage of suitable tools, equipment and machinery;
- Absence of affordable finance is undermining the growth of SMEs involved in the production of finished products;
- Lack or inadequate horizontal and vertical collaboration among Value Chain Agents, was undermining the optimization of the available resources;
- Limited collaboration of core value chain agents with peripheral stakeholders such as academia, quality and standards development organizations, financial institutions and development partners among others, is undermining growth of the sector.

The above issues or trends and the objectives outlined in the Draft National Leather and Leather Products Policy (NLLP) anchor the formulation of strategic objectives, which are presented in the next Chapter. For the record, the objectives in the NLLP reads as follows:

- To promote the production of quality semi-finished/finished leather and leather products for local and export markets;

- To promote more efficient, environmentally friendly production techniques along the value chain;

- To create an enabling business environment

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

CHAPTER IV: STRATEGY

4. Introduction

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

4.1. Vision and Mission

Vision

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

Mission

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

4.2. Strategic Market and Growth Goals

In accordance with the Vision and Mission of the Strategy, the Stakeholders identified specific target markets for selected products. The overall market direction shifts the focus of the Leather Subsector towards the production of value-added leather products, such as crust, finished leather, footwear and leather goods, for the domestic and export markets. The ultimate objective is to foster the production and export of value added products so as to promote job creation, income and foreign exchange generation and economic growth. See the products and market targets illustrated in the Table 23 below:

Table 23: Target Market

	Wet blue	**Crust leather**	**Finished leather**	**Leather Goods**
Domestic			After 2 years	• Expand production in yr 1 and 2 based on imported leather • Year 3 depend on locally produced leather
Export	ongoing	After1.5 years	In year 3	In year 4 onwards

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

Table 24: Growth Strategic Targets

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

4.3. Strategy Objectives

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

The strategy's objectives and the rationale of selecting the given objectives are summarized in the Table below. See the Table 25 below listing the four objectives and the rationale for their adoption.

Table 25: The Rationale for the Selected Objectives

Objectives	Rationale based on Emerging Issues Summarized in Chapter III
1. To facilitate the production of quality value added leather and leather products for local and export markets	This objective is based on the fact that value addition would enhance income earnings, employment creation and poverty alleviation. In addition, it responds to the following issues summarized in Chapter III: • The quality of hides and skins being produced in Uganda is deteriorating; • The market for finished products in Uganda is growing astronomically, as reflected by a sharp increase in imports over the past ten years i.e. footwear imports grew from USD6 million to USD35.5 million in the period 2001 to 2013; • Continuous export of wet blue is costing the country in terms of forgone revenue earnings • The rapidly expanding SMEs subsector producing finished products are forced to depend on imported leather, which is raising its costs of production, consequently undermining competitiveness domestically and externally; • The quality of footwear and leather goods being produced in

Objectives	Rationale based on Emerging Issues Summarized in Chapter III
	Uganda is being undermined because of the use of poor quality leather and the shortage of suitable tools, equipment and machinery.
2. To facilitate resource mobilization and policy support for the growth of the value chain	• The growth in the production of value added products requires capitalization with regard to tools, equipment and machinery, it is therefore imperative that the enterprises are facilities with suitable financial packages. • Absence of suitable finance is undermining the growth of SMEs involved in the production of finished products; • Policy signal/guidance to influence the Private Sector to invest in the production of finished leather products
3. To promote cleaner and environmentally sustainable production techniques and systems	The leather value chain has been known to produce hazardous waste, thus it is fundamental that efficient and environmentally sustainable production techniques are promoted, as this is necessary to boost competitiveness, open new market opportunities and save the environment.
4. To facilitate horizontal and vertical collaboration of chain players and other relevant stakeholders	A number of cross cutting issues are listed in the SWOT analysis, which has a bearing on the creation of an enabling business environment. Collaboration is essential in enabling optimization in resource use and dealing with emerging challenges systematically and coherently. In addition it response to the following specific issues: • Lack or inadequate horizontal and vertical collaboration among Value Chain Agents, is undermining the optimization of the available resources; • Limited collaboration of value chain agents with external stakeholders such as academia, quality and standards development organizations, financial institutions and development partners among others, is undermining growth of the sector

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 and contribute to the attainment of this Strategy's Vision and be manifested through measurable indicators specified under strategic market and growth goals. The specific activities would be crafted as part of the annual work plan by the Ministry of Trade Industry and Co-operatives in consultation with the relevant Stakeholders

4.4.1. Objective 1: To facilitate the production of quality value added leather and leather products for local and export markets

Under objective 1, issues pertaining to hides and skins improvements are also addressed; this is mainly because quality raw materials are essential for the production of quality value added products. This objective focuses on enhancing capacity at all the levels of the leather value chain in order to improve quality, value and volume of value added products. The specific sub-objectives and expected outcomes, which would contribute to the attainment of the above objective, are listed in Table 26 below.

Table 26: Objective 1 Sub-objective and Activities

Objective 1: To Facilitate the Production of Quality Value Added Leather and Leather Products for Local and Export Markets			
Sub-objectives	**Expected Output/Outcome**	**Stakeholders**	**Budget Estimate (USD)**
Facilitate the development of an efficient Hides and Skins production, preservation and marketing system	• Pre, peri and post slaughter defects incidence reduced by 75%; • 75% of hides and skins produced classified as grades (1 and 2) 1 - 3; • 100% of hides and skins produced priced according to grade; • 75% of hides and skins produced enters the leather value chain	Line Ministries, COMESA/LLPI, ITC, UNIDO, FAO, Uganda National Bureau of Standards, NARO, ULAIA FLEMEA, UMA Academia	500,000.00
Facilitate the production of semi and finished leather, which meet international quality and environmental standards	• 100% of hides and skins produced in Uganda are converted into wet blue by 2018; • 100% of the total hides and skins exported as crust leather by 2022 • 100% of total converted into finished leather for domestic and export markets by 2025 • 100% tanneries are ISO certified for meeting international quality and environmental standards by 2025	Line Ministries, COMESA/LLPI, ITC, Line Ministries, COMESA/LLPI, UNIDO, FAO, Uganda National Bureau of Standards, NARO, ULAIA ,FLEMEA, UMA Academia	200,000.00
Facilitate the production of quality footwear and leather goods	• 20 Clusters of 100SMEs each established by 2015; • 20 Clusters of 100 SMEs facilitated to procure joint by or have access to joint machinery under one roof by 2018; • Strategic linkages between Clusters and Support Institutions established; • 50% of the Cluster are ISO certified for meeting international quality and environmental standards by 2025 • 80% of back -to -school shoes are produced in Uganda by 2025; • 100% of Police and Military footwear requirements are produced in Uganda; • Export of footwear increased by 25% into the regional and international markets by 2025 • Increased export of leather goods by 25%	Line Ministries, COMESA/LLPI, ITC, UNIDO, FAO, Uganda Bureau of Standards, Scientific Council of Uganda, ULAIA ,FLEMIA, Uganda Confederation of Industry, Secondary and Primary Schools, Ministry of Education and Sports, Ministry of Defense and Ministry of Internal Affairs.	500,000.00
Work out modalities of implementing export tax on wet blue and crust over a defined time horizon	• Increased production of finished leather; • Employment creation	Line Ministries, COMESA/LLPI, ITC, UNIDO, FAO, Uganda National Bureau of Standards, NARO, ULAIA FLEMEA, UMA Academia	30,000.00
Sub Total	•		1,230,000

4.4.2. Objective 2: To facilitate Resource Mobilization and Policy support for the Growth of the Value Chain

Financial resources play a significant role in supporting the capitalization of the sector and also to support full capacity utilization, which is critical in boosting productivity and lowering of unit production costs through economies of scale. The sub-objectives for attaining this objective are summarized in the Table 27 below.

Table 27: Objective 2 Sub-objectives and Activities

Objective 2: To Facilitate Resource Mobilization and Policy Support for the Growth of the Value Chain			
Sub-objectives	**Expected Output/Outcome**	**Stakeholders**	**Budget Estimate**
Conduct sector financial needs	Report completed	Line Ministries, FAO, UNIDO,	**20,000.00**

Objective 2: To Facilitate Resource Mobilization and Policy Support for the Growth of the Value Chain			
Sub-objectives	**Expected Output/Outcome**	**Stakeholders**	**Budget Estimate**
assessment for the leather sector, support industries and regulatory institutions in the region	and disseminated by mid 2015	COMESA/LLPI, ITC, Uganda National Bureau of Standards, ULAIA FLEMIA, Academia, Uganda Confederation of Industry, Finance houses and other stakeholders, PTA	
Design suitable financial instruments in consultation with national, regional and international (development banks) financial institutions	Instruments designed and implemented by 2015		**10,000.00**
Mobilise funding from national, regional and international finance corporations and also from Government	Amount raised		**20,000.00**
Build the capacity of value chain actors including support industries and regulatory authorities on modalities of accessing finance	1,000 enterprises trained by end of 2025		**100,000.00**
Design a system for monitoring and usage of the mobilized resources, to ensure resource optimization	System developed and implemented by 2015		**100,000.00**
Establish a business information system to assist enterprises to market access and industry best practices	Improved business technical know how and business intelligence		**50,000.00**
Sub Total			**300,000**

4.4.3. Objective 3: To promote cleaner and environmental sustainable production techniques and systems

The leather value chain has gained negative publicity across the globe because of the utilization of technologies, which are associated with environmental pollution and damage. This is mainly because of the use of salt and chemicals in the preservation and leather production respectively. However, It is imperative to note that technological advancement has led to the generation of the development of cleaner technologies and also a significant improvement in waste management. Despite progress in this vein, it should be noted that most production systems in developing countries, including Uganda, have not fully internalized these technologies. The usage of cleaner and environmentally friendly technologies, besides protecting the environment, are also an important marketing tool e.g. eco-labelling etc.. This objective thus focuses in ensuring that all enterprises involved in the leather value chain embraces cleaner and environmentally friendly production technologies. The specific sub-objectives, which would contribute to the attainment of the above objective, are summarized in the Table 28 below:

Table 28: Objective 3 Sub-objective and Activities

Objective 3: To Promote Cleaner and Environmental Sustainable Production Techniques and Systems			
Sub-objectives	**Expected Output**	**Stakeholders**	**Budget Estimate**
Undertake an audit or gap analysis in the technologies being used in Uganda vs. those being used in modern production facilities globally;	• Audit completed by end of 2015 • Audit report disseminated by end of 2015 • Audit recommendation implemented by end of 2022	Line Ministries, FAO, UNIDO, COMESA/LLLPI, Uganda Bureau of Standards, ULAIA FLEMA, Academia, Uganda Confederation of Industry, Finance houses high learning institution (academia)	**50,000.00**
Work in collaboration with the value chain players to design a programme for closing the	Program designed and implemented by 2022		**30,000.00**

Objective 3: To Promote Cleaner and Environmental Sustainable Production Techniques and Systems			
Sub-objectives	**Expected Output**	**Stakeholders**	**Budget Estimate**
identified gaps;		and other stakeholders	
Mobilize resources to facilitate the deployment of cleaner and environmentally friendly production techniques;	Resource mobilization program designed and implemented by 2022		**50,000.00**
Design a monitoring system for the implementation of the cleaner production programme	System designed and implemented by 2015		**100,000.00**
Develop, review and enforce the relevant laws, regulations, guidelines, standards and codes of practice pertaining to leather and leather products quality	Improved business and policy environment		**70,000.00**
SubTotal			**300,000**

A total sum of USD 1,680,000 is required to implement this Action Plan.

4.4.4. Objective 4: To facilitate horizontal and vertical collaboration of chain players and other relevant stakeholders

The Cluster theory recognizes that the cause of underperformance among enterprises may be attributed to the isolation phenomenon, which is common in most developing countries, Uganda included. Thus, horizontal and vertical collaboration is essential in addressing common problems optimally, by sharing the costs associated with it. Collaboration can be used to deal with both supply and demand constraints, which are usually difficult to deal with in isolation. Engagement with stakeholders such as Academia, development partners, financial institutions, technical and service providers in a systematic manner is critical in enabling the sector to reap from economies of scale of collective action. The sub objectives, which would contribute to the attainment, are articulated in the Table 29 below.

Table29: Objective 4 Sub-objectives and Activities

Objective 4: To facilitate horizontal and vertical collaboration of chain players and other relevant stakeholders			
Sub-objectives	**Expected Output**	**Stakeholders**	**Budget Estimate**
Activities			
Identify and develop and inventory of agents at every segment of the leather value chain;	• The inventory is disseminated by mid 2015; • Inventory continuously update with time	Line Ministries, Uganda Bureau of Standards, ULAIA, FLEMEA, Academia, Uganda Confederation of Industry, Finance Houses and other stakeholders,	**50,000.00**
Facilitate the formation of associations at every stage of the value chain;	Associations established and legally registered by end of 2015		**100,000.00**
Facilitate & coordinate vertical collaboration by forming an Apex Council of the leather value chain;	Apex Council established and officially registered by June 2015		**50,000.00**
Identify external stakeholders and formulate mechanism of working with them.	• Stakeholders inventory designed and methodologies for working with them developed and implemented		**20,000.00**

Objective 4: To facilitate horizontal and vertical collaboration of chain players and other relevant stakeholders			
Sub-objectives	**Expected Output**	**Stakeholders**	**Budget Estimate**
	by 2015 • Inventory continuously updated with time		
Facilitate the formation of Clusters among the value chain players	20 Cluster of 100 SMEs each established across Uganda		**50,000.00**

(i)Develop, review and enforce the relevant laws, regulations, guidelines, standards and codes of practice pertaining to leather and leather products quality

(i) Establish a business information system to assist enterprises to

Improve market access and industry best practices

4.5. Implementation Methodology

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