ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

CHALLENGES AND PROSPECTS OF TEXTILE AND APPAREL MANUFACTURING SECTOR IN ETHIOPIA: THE CASE OF ADDIS ABABA

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SELAMAWIT KUMERA

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LIST OF ACRONYMS

AGOA	African Growth and Opportunity Act
ATC	Agreement on Textile and Clothing
ETB	Ethiopian Birr
CSA	Central Statistics Authority
COMESA	Common Market for East and Southern Africa
EIC	Ethiopia Investment Commission
ERCA	Ethiopia Revenue and Customs Authority
ETGAMA	Ethiopian Textile and Garment Manufacturing Association
ETIDI	Ethiopia Textile Industry Development Institute
FDI	Foreign Direct Investment
FFYP	First Five-Year Plan
GDP	Gross Domestic Product
GTP1	Growth and Transformation Plan Phase 1
GTP2	Growth and Transformation Plan Phase 2
IPDC	Industrial Parks Development Cooperation
IT	Information Technology
SFYP	Second Five-Year Plan
TNC	Transnational Corporations
USD	United States Dollar
WTO	World Trade Organization

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Abstract

The Ethiopian government has prioritized the textile sub sector as the focal area in its Growth and Transformation Plan aiming the manufacturing sector the major driving force of the economy. This research paper focuses on challenges and prospects of textile and apparel manufacturing sector in Ethiopia particularly in the case of Addis Ababa. The main purpose is to examine the sector contribution to foreign direct investment, job creation and to find the factors that hinder production capacity of textile firms. The primary information was obtained through interviews and secondary data were collected and analyzed using descriptive analysis. The findings revealed the challenges that hinder the overall performance of the sector. The sector has shown a little or no progress as opposed to GTP II target set for the sector. Based on findings, recommendations to different stakeholders forwarded.

Key words: Textile, Growth and Transformation Plan

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the study

The textile industry has been one of the most dynamic and geographically mobile industries globally (Dicken, 2011). The industry is made up of complex global production networks and due to the possibilities of minimizing the costs of production, many companies use suppliers located in developing countries. During the recent years Transnational Corporations (TNCs) have started to outsource textile production to African countries, one of them is Ethiopia. During recent decade, more African countries have started to produce textile for export (Alderin, 2014) the textile industry is an important sector in developing countries. Textile industries have a vital role on the economic, social, cultural and political development of countries. Apart from food and shelter, textile has been identified as the most important in the hierarchy of man's need. Textile processing operations are considered an important part of the industrial sector in both developed and developing countries, like Ethiopia (Tafesse, Yetemegne, & Kumar, 2015).

Historically, the Ethiopian community has a culture of making clothes through spinning and weaving in a traditional way. Even though written records are scarce, it is widely believed that Ethiopians wore clothes woven from cotton fibers centuries ago (Bosena, Bekabil, Berhanu, & Dirk, 2011). Textile has been one of Ethiopia's traditional domestic business mainly relied on traditional based and home grown old age spinning material up to the modern textile and garment integrated mill was established in 1939 in Dire-Dawa by the name of Dire-Dawa Textile Factory, which marked the beginning of textile industrialization by foreign capital (Addis Ababa Chamber of Commerce and Sectoral Association, 2015).

The Ethiopian government is now investing on textile industries and attracting foreign investors to invest on this sector. Textile factory needs intensive manpower in its operation. Ethiopia is the second populous country in Africa with large number of young people. This creates a favorable condition to expand textile factory in the country. There are many opportunities for Ethiopia becoming a competitive textile industry with necessary actors and production factors that are

related to the high labor force of young population and therefore a great opportunity for increased employment in Ethiopia (Alderin, 2014). Currently, Ethiopian textiles and apparel industry encompasses spinning, weaving, finishing of textiles, manufacture of cordage, rope, twine, netting, knitting mills, and manufacturing of wearing apparel (Addis Ababa Chamber of Commerce and Sectorial Association,2015).

Ethiopia now asserts itself as one of the major textile producers in Africa. The government envisions putting the country, by 2025, the leading textile sourcing nation in Africa. Strategic planners have already projected Ethiopia as the future African hub of textile manufacturing, the leading textile exporter in Africa and the seventh in the world. Higher production cost, increasingly stringent standards compliance requirements and the ever mounting need for textile products are factors pressurizing textile manufacturing companies to shift from Asia to Africa. Ethiopia has exploding working age population that may well be absorbed in the labor intensive textile industries. The textile sub sector is already the largest employer in the manufacturing sector.

The Ethiopian government has prioritized the textile sub sector as the focal area in its Growth and Transformation Plan aiming at making Ethiopia a middle income country and making the manufacturing sector the major driving force of the economy. To achieve this goal, the government has been endeavoring in cutting out bureaucratic red tapes and create conducive and enticing environment for potential investors in the textile sub sector. The establishment of industrial parks furnished with all the basic infrastructures and government services including customs in various locations across the country is a case in point. Industrial parks development, the task being undertaken mainly by the government, saves the investor's time and efforts that could otherwise been wasted. Thus, the investors getting the benefit of the plug and play approach of industrial parks already start production and expected to boost productivity, cost effectiveness and market competitiveness.

Ethiopia has fine development opportunity and huge potential in domestic as well as international prospects in regards to garment sector. These can be seen from the fact that availability of global opportunities like market entry access such as (AGOA, COMESA and

similar bilateral trade agreements) which brings about the government to considers garment sector as a priority sector by providing direct support. Regardless of these facts, the industry could not achieve the optimum level of development and performance to the country in general and to the promoters in particular. Various factors were playing against the proper development and performance in the industry. The low development of garment industries in comparison to Growth and Transformation plan of Ethiopia (GTP II) motivated the researcher to look in to the currently existing factors affecting the sector in order to come up with suggestions with a way of alleviating the major issues raised.

1.2 Statement of the Problem

The Ethiopian government has prioritized the textile sub sector as the focal point in its Growth and Transformation Plan aiming at making Ethiopia a middle-income country and making the manufacturing sector the major driving force of the economy. The Ethiopian government has set the sector as a hub for the Growth and Transformation Plan II (2015-2020), By improving production capacity, productivity, quality and competitiveness of the textile and apparel sub-sector, attracting more quality investments, ensuring sustainable and reliable input supply, forging strong input and market linkages, increasing the export performance significantly, strengthening its role in job creation and structural changes, it is planned to manufacture USD 2.18 billion worth of production and earn USD 779 million in export revenue by the end of plan period. Average production capacity utilization of this subsector to be reach 80% by 2019/20. In terms of employment, the government has planned to create 174,000 job opportunities in this subsector (FDRE Growth and Transformation Plan II, 2016).

With the aim of achieving the above objectives the government establishes Industrial Park Development Corporation in 2014 G.C, which mandated to develop and operate a wide ranges of industrial parks and currently the corporation developed three industrial parks among them two are already operational which includes pre-built sheds equipped with large-scale utilities and infrastructural facilities. Both industrial parks already rented out for foreign apparel and textile companies.

However, as different studies revealed and the fact that Ethiopia has not achieved the sector target planned during the Growth and Transformation Plan I, the sector is still sluggish. Even with different incentive schemes provided by the government for foreign investors most of them are failing to achieve their export target rather they enjoy the incentive scheme and provide their textile products to the local market which have high demand with little quality requirement. Compared to others Sub Sahara Least Developed Countries, Ethiopia has been placed at the lower level on the utilization of the opportunity provided by the developed countries as well as regional market opportunities for textile and apparel industry (AGOA, EBA and COMESA) (Rahel, 2007).

Even if Ethiopia has a potential for producing a huge amount of cotton, producers which are operating in the country cannot prove themselves to provide both quality and quantity raw materials because of that the textile sector is still dependent on the imported raw materials, which hinders the production capacity.

The mission of making Ethiopia the leader on textile production is highly dependent on the competent workforce especially as one of the main challenges at the factories is highly related to inefficiency, while the highest amount of the work force, 60% of the total population, is the young and productive age citizen. But as Yared (2013) states workers lack technical experiences and does not work “as fast” as required which shows that technical and managerial capacity building of the workforce still has a lot to be desired.

Due to different challenges to be revealed by this study, the industry that could have been flourishing to the best interest of the economy is now operating at about 50% of its capacity. Moreover, the industries are operating very much below the production capacity and hence their contribution to the GDP is insignificant in light of efforts made by the government and different stakeholder’s concerned (Mekonnen, 2013). Hence the low development of textile and apparel industries in comparison to Growth and transformation plan of Ethiopia (GTP) motivated this study to look in to the currently existing challenges affecting the sector in order to come up with suggestions with a way of alleviating the major issues raised.

1.3 Research Questions

In line with the above problem statement this study provide answers for the following research questions

- How is the trend in the textile and apparel manufacturing sector in Ethiopia looks like?
- How much is the contribution of textile and apparel industry to foreign direct investment?
- What are the contribution of textile factories in skill development and job creation?
- What are the challenges affecting production capacity of textile and apparel industry in Ethiopia.

1.4 Research Objective

1.4.1 General Objective

The general objective of this study is to assess the challenges and prospects of textile and apparel manufacturing sector in Ethiopia in the case of Addis Ababa.

1.4.2 Specific Objective

Specifically the study addressed the following key research objectives:

- To examine the trend of textile and apparel manufacturing sector in Ethiopia;
- To assess the contribution of textile and apparel industry to foreign direct investment;
- To examine the contribution of textile and apparel industry in skill development and job creation; and
- To identify the challenges affecting production capacity of textile and apparel industry in Ethiopia.

1.5 Significance of the Study

The Ethiopian government is now working towards the development of textile and apparel sector as a priority within the planned industrial development. Ethiopia has the potential to serve as a benchmark for sustainable textile industries for a number of reasons including the relatively high status of social and environmental standards in some export-oriented Ethiopian industries, and the large trainable labor force that can provide for the needs of the labor-intensive textile and apparel industry.

This study identified potential challenges, which hinder the performance of textile and apparel manufacturing sector. The recommendations drawn from this study will have essential contribution for the investors, policy makers and for other stakeholders. It also serves as a reference in the area of knowledge required to plan current sustainable textile and apparel manufacturing sector. It also serves as a facilitator for taking additional investigation by other researchers.

1.6 Scope of the Study

This study is restricted to specifically assessing the challenges and prospects of textile and apparel manufacturing sector in Ethiopia in relation with production capacity, foreign direct investment, skill development and job creation of textile and apparel manufacturing sector in comparison with growth and transformation plan and emerging industrial parks. Moreover, due to lack of separate and detail data, this study treats textile and apparel industries on aggregate level despite the fact that they have structural difference. The study is limited in addressing companies operating beyond in the district of Addis Ababa. Time and resource is a limiting factor not to include the above accounts in this study.

1.7 Limitation of the Study

The main limitation of the study is the absence of sufficient, separate and detail data, on this topic as the access to electronically stored data and trend of companies sharing their information to the public is very low. This study is limited in scope in that description of facts on textile and apparel industries that are currently operational but those, which are in implementation, and pre implementation stage is beyond the scope of this study. The study is further limited in addressing companies operating beyond the vicinity of Addis Ababa. Time and resource are a limiting factor not to include the above accounts in this study since data's are mostly found in scattered form, data collecting and compiling will account much time.

1.8 Ethical Considerations

The research participants in this study will appropriately informed about the purpose of the research and their willingness before the commencement. This study will take ethical study practice into account. Given this condition, the participants will rest assured in the participation of the interview session without any bias and sentiment with promises of confidentiality and anonymity throughout the study. The study will maintain high level of anonymity during data collection process to protect the job and privacy of the participants' information by ensuring that the third party does not have access to the information.

1.9 Organization of the Research Report

This paper will be organized with five chapters. The introductory chapter will includes background of the study, statement of the problem, basic research questions, and objectives of the study, significance of the study, scope, and limitation of the study. In the next part, under chapter two theoretical, empirical and conceptual literature reviews will be made on the topic. Chapter three describes about Description of the study Area/Organization, Research Approach and Design, Data Type and Source, Target population and Sample, Data Collection Methods and tools and Data Analysis and Presentation techniques. Chapter four includes the data analysis and presentation of the thesis and chapter five focuses on the final conclusions and recommendations of the study.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1 Theoretical Review

2.1.1 Textile and Apparel Industry

According to (Gereffi et al. 2011) Textile and Apparel production is seen as an important catalyst for developing countries' industrialization. It has played an important role as a springboard for economic development and, due to its low fixed costs and labor-intensive manufacturing, is often a starter industry for countries seeking to industrialize.

The textile and apparel industry provides employment to tens of millions of workers, mostly in developing countries around the world. According to the World Trade Organization (WTO, 2016), the global value of textiles and apparel exports totaled $291 billion and $445 billion respectively in 2015. The textile and apparel value chain has been global since the 1970s and the geography of apparel production and trade has been highly dynamic. The Multi-fiber Arrangement --a set of preferential quotas intended to regulate the industry and protect certain economies from low-cost imports - was phased out by 2005 when the World Trade Organization (WTO)'s Agreement on Textiles and Clothing (ATC) was implemented. This triggered a global realignment of apparel production, and private firms had to restructure to adjust to this new environment (Gereffi et al. 2011). More recently, the global landscape has been shaped by the development of regional value chains, particularly in Asia, and unilateral preference schemes and bilateral trade agreements containing preferential arrangements for textiles and apparel. Zero tariffs and favorable rules of origin have allowed certain countries to become competitive exporters. Such as, access to the US market through;

AGOA

The African Growth and Opportunity Act (AGOA) provide preferential access of textile and apparel products to the U.S. market for qualifying countries in Africa.

The AGOA legislation requires an annual determination to determine which countries are eligible to receive benefits under the trade act. Countries must make continued progress toward a market-based economy, rule of law, free trade, and economic policies that will reduce poverty, and protect workers' rights. There are now 40 countries that are eligible for economic and trade benefits under AGOA. Of those 40 Sub-Saharan countries, 28 of them are eligible to receive AGOA's apparel benefits. Twenty-six countries also qualify for the LDC special rule for apparel (third-country fabric).

2.1.2 Industrial Policy in Ethiopia

A conscious move to stimulate industrial growth in Ethiopia began only in the mid-1950s with the formulation of the First Five-Year Plan (FFYP) that covered the period 1958-1962. Two more five-year plans, Second Five Year Plan (SFYP) and Third Five Year Plan (TFYP), were launched between 1963 and 1973. The implementation of these initiatives attracted foreign investors and gave boost to the manufacturing sector in Ethiopia, although the overall industrial base of the country remained weak (World Bank, 1985).

The military government, which came to power in 1974, nationalized most of the medium and large manufacturing enterprises and declared "a socialist economic policy'. The manufacturing sector exhibited a sharp decline particularly in the first few years following the revolution. The nationalization and continued systematic restriction of the private sector from engaging in major economic activities had virtually reduced the emerging vibrant sector into micro- and small-scale manufacturing activities.

The government led by Ethiopian People's Revolutionary Democratic Party (EPRDF) that assumed power in 1991 adopted various economic reform measures under the structural adjustment program (SAP). The SAP was implemented in three phases over the period 1992-99. Industrial restructuring that include, de-regulation, trade opening and privatization had been the key elements of the program. The aim was to shift resources into industrial sector that has clear comparative advantage over the other sectors and eliminating insufficient use of resources by public enterprises.

According to World Bank (1994) the favorable policy environment created by the economic reforms, coupled with macro-economic stability, revitalized the manufacturing sector and the economy in general. The high growth period, however, did not last long and economic activities and particularly exports were less diversified. In an effort to address the lack of progress in export diversification, the Ethiopian government adopted Export Promotion Strategy in 1998, which led the establishment of the Export Promotion Agency. The strategy aimed at promoting high-value agricultural exports (e.g. horticulture products and meat) and labor intensive manufacturing products (clothing, textile, leather and leather products). This strategy was; nonetheless, relatively narrow in scope (Gebreeyesus, 2013).

A full-fledged Industrial Development Strategy (IDS) was formulated in 2002/03. The Industrial Development Strategy (IDS) is based on the government's broad development vision known as Agricultural Development Led Industrialization (ADLI). It comprises the following four key principles:

– Strong **linkage** between industry and agriculture,

– **Export oriented** sectors to lead industrial development and be given preferential treatment,

– **Labor intensive** sectors also are given priority to exploit comparative advantage and maximize employment

– **Public-private partnership:** the strategy recognizes the private sector as engine of growth, while government assuming leadership and coordinating role. It also distinguishes the 'rent seeking' and 'developmental' private sector vows to curtail the former and promote the latter.

2.1.3 Industrial Structure of Textile Industry

According to Dicken (2003) Textile and apparel industry consists of three parts (chains): up stream (fiber production), mid-stream (fabric production and dyeing) and downstream (garment/apparel production). Each chain has its own specific technological and organizational characteristics. The textile industry consists of two major operations; the preparation of yarn and the manufacturing of fabric. The textile is relatively capital intensive and its large size capacity makes it competent. The apparel industry is far more fragmented organizationally than textile industry and it uses less sophisticated technology. However this industry is more labor intensive and produces an enormous variety of often rapidly changing products.

Ethiopian textile and apparel industry is producing a large variety of products. Spinning firms produce yarn and sewing thread. Whereas integrated mills produce a wide variety of products including yarn, fabrics (knitted and woven), canvas, school and traveling bags, blankets, sweaters, shawls, uniforms, towels, baby nappies and knitted garments. Apparel manufacturers on the other hand, produce various types of garments for both the local and export market.

The Ethiopian textile and apparel sector is characterized by labor intensive (apparel, weaving and knitting) and capital intensive (spinning dyeing and finishing) industries. Although the fabric production is more capital intensive than the apparel sector, it is still fairly labor intensive in Ethiopia. However, the fiber production is essentially capital intensive. Ethiopian textile and apparel industry is exposed to a comparative disadvantageous position in both upstream and midstream chains. The development of these parts of the industry demands a huge investment capital, knowledge and strategic thinking. But Ethiopia lacks these factors. Even in the regional market (Africa) there is no strong supply of fabric and/or fiber. As a result, Ethiopia would have no access to focus on its comparative advantageous labor intensive apparel industry unless it secures the supply of fabric.

The level of technology in Ethiopian textile and apparel industry can be viewed from two angles: the newly established industry brings relatively latest technologies, which are prominent in textile and apparel production such as China, India, Turkey, etc. The second one is, the industries, which were established in the Imperial and Derge era, have experienced huge problems in terms of their production due to obsolete technology. This results in frequent breakage and lack of spare parts. The unique characteristic of Ethiopian textile and apparel industry is that most of the textile mills are vertically integrated (spinning-weaving/knitting-apparel) and there is no observable specialization. In addition they are not in the position of supporting the emerged apparel industry because most of the fabric produced is consumed by them. This condition demands policy intervention to bring specialization, promote intra- sectoral linkage and attract more investment.

2.1.4 Textile and Apparel in Ethiopia

It was in the early twentieth century that Ethiopia's cotton sector, and consequently the textile & apparel sector, began to grow on a commercial scale. The Italians introduced the first garment factory in 1939, as well as the first modern, integrated textile mill. The sector continued to expand in line with the growing cotton production, and the 1960s saw the establishment of five large, private, integrated textile enterprises. While the socialist Government (1974 to 1991) nationalized textile and apparel companies, it also established additional enterprises to fulfill domestic demand. Nonetheless, the sector eventually suffered under this regime: the lack of competition, limited investment, and reliance on outdated technology eventually left the textile and apparel sector significantly handicapped. Indeed, it was unable to meet international standards and was operating well below capacity.

Since the return to a market economy in 1991, the Government has identified the textile and apparel sector as a priority for poverty reduction and economic development, given its labor intensity. From 2000 onward, the Government began to privatize state cotton farms and ginneries and to sell or lease state textile mills. However, it is only in the last few years that the sector has truly started to grow according to its potential.

Ethiopian Government has designed **Industrial Development Strategy** in 2002 which gives much attention to Textile Industry Development due to high amount of easily trainable abundant available workforce at competitive costs and good climatic and soil conditions for cotton development. By considering all these conditions and in order to utilize this comparative advantage the Government of FDRE established **Ethiopian Textile Industry Development Institute (ETIDI)** in June 2010.

The Institute is one of the catalysts towards achieving the cotton, textile and apparel industries goals set by the Government. The institute provides various supports to the companies and investors in the cotton development, textile and apparel industries. In order to bring the policies, programs and supports in to reality and tangible practices the government and the responsible institute has designed and implemented long, medium and short term strategic plans.

The Growth and Transformation Plan (GTP) is one of these plans which are expected to transform the economy from agriculture to industry led economy. The first five years (2010/11-2014/15) Growth and Transformation Plan of cotton and textile industry plan had been implemented and that gave a feedback to sprint in **GTP II** even though the planned results are not achieved and economic transformation had not been reached. Currently there are more than 180 large and medium scale textile and garment industries in Ethiopia in scattered manner in different regions which make the supporting mechanism very challenging.

As production costs in Asia continue to rise and Western buyers become more interested in ensuring ethical working conditions, a number of sourcing companies have turned away from Asia and towards Africa. Brands including H&M, Tesco and Primark have all begun to source from Ethiopia over the last few years as they seek to increase control of the entire supply chain from cotton to garment. They are drawn not only by low labor costs but also by the availability of raw materials and by the geographical proximity; Europe can be reached easily via the Suez Canal, reducing delivery times by a third when compared with the Far East. In addition, many companies are drawn to the perceived social responsibility of the sector in Ethiopia; Ethiopian labor laws conform to International Labor Organization standards.

2.1.5 Textile Production in Ethiopia

Ethiopia's textile industry is relatively diverse and can be divided broadly into four main areas of production: spinning, knitting and weaving, finishing and garmenting. The Ethiopian textile industry produces a wide range of products, such as yarn, grey knitted and woven fabric, finished fabrics and made-ups.

The installed capacity of each section of the sector is 72 million kilograms of yarn, 122 million meters of woven fabric, 30 million kilograms of knitted fabric, 18 million kilograms of processed knitted fabric, 49 million meters of finished woven fabric, 62 million pieces of knitted garments and 18 million pieces of woven garments.

Table 2.1 Ethiopia's current installed and attained annual capacity of textiles and apparel

Ethiopia's current installed and attained annual capacity of textiles and apparel				
No.	**Section**	**Installed annual capacity**	**Attained annual capacity**	**Utilization of capacity**
1	Ginning	106 164 tons of lint cotton	37300 tons of lint cotton	35%
2	Spinning	72 million kg of yarn	50.4 million kg of yarn	70%
3	Weaving	122 million meters of woven fabric	61 million meters of woven fabric	50%
4	Knitting	30 million kg of knitted fabric	13.5 million kg of knitted fabric	45%
5	Knitting Processing	18 million kg of processed knitted fabric	8.64 million kg of processed knitted fabric	48%

Source: ACTIF Benchmarking reports, 2016

2.1.6 Factors Affecting Production Capacity

2.1.6.1 Internal Factors

Capital

Capital is one of the factors of productivity. Financial resource deals with the ability to access cash and capital (Ling & Ogunmokun, 2001).The availability of working capital in order to meet costs related to purchase and produces of goods as well as cover pre-shipment costs and unexpected difficulties. In world banks (2007), enterprises survey only 17.7 percent of Pakistani firm's surveyed responded access to finance as major constraint, compared to 33.4 percent in other South Asian countries and 29.7 percent across 135 countries. More over in another study on Bangladesh confirms that firms were concerned about high level of interest rates even for loans backed up by sound collateral (Khar, 2008).

Labor

The term "Human Capital" has been defined by Schultz (2003) as a key element in improving a firm assets and employees in order to increase productivity as well as sustain competitive advantage. Furthermore Human capital is defined as "The knowledge, skills, competence and

attributes embedded in individuals that facilitate the creation of personal, social and economic well-being" by (Organization for Economic Co- Operation and Development, OECD, 2001).
The garment industry is a labor intensive industry (Isam and Shazali, 2011). In most studies carried out on human capital and their implication on performance of a firm human capital enhancement will result in greater competitiveness and performance of a firm (Agrawala, 2003).

Information Technology

Most recent development in technology is considered to be pervasive to all types of firms engaged in the manufacturing and service sector of developed and developing nations as (James, 1994; Domes et.al, 1997) states. Many developing countries have been able to strengthen their comparative advantage by focusing on the building of technological capability, on adoption of new technologies, and on the development of skills to use these new technologies effectively and efficiently (Noland, 1997). A study conducted by Aw Bee Yan et.al (2008) on Taiwanese electronics exporters, illustrates casualty between R&D and productivity. In order to remain competitive in the global market garment firms are forced to adopt up to date technology. Most garment manufacturing firms' worldwide use IT mainly in the Design and Pre-assembly stages of manufacturing process.

Managerial Capability

Firm's decision makers play a vital role in the firms' performance. Managers deal with the cost, profit and risk of a firm. Education, training and exposure provide the skill set and knowledge that equip them with tools like technology literacy which helps to increase productivity and hence success in performance. "Education cultivates comprehensive literacy, this would help owners/managers to interpret relevant information to do effective planning and make well-informed decisions which would ultimately enhance the organizations success" (Mohan, 2009). In similar study its stated that the crucial element of a firm characteristic is leadership since organization leader is the decider of all corporate roles, directions and strategies affecting production innovation Matzler et.al, (2008) accordingly leaders bring success to the firm with attainable overall operations through sales turnover, increase the firm's success, profit and growth of the enterprises.

2.1.6.2 External Factors

Raw Material

The important contributor to the final cost of most of the products is the raw material cost. The firms usually face the dilemma of cost or quality. It is well known that the cost and quality has direct relationship but have inverse relationship to value addition. The value of products can be enhanced by either reducing the price or increasing the cost. Sometimes the cost and availability of raw material (Lal, 1999) is very much affected by the price and availability of substitutes**.**

Infrastructure

Firms' operating from a developing country like Ethiopia would also be required to take into account the uncertainties of poor infrastructure in the system. To be competitive in the present liberalized business environment, a domestic enterprise needs world class and cost-effective infrastructure. Better roads, better connectivity, modern airports and railways, efficient ports and affordable and reliable power are all the basic requirements for a competitive economy. Non-availability of the same could result in costs to a firm because of needs such as maintaining inventories at various stages of the work-in progress and the need of excess liquidity to meet such unavoidable transaction costs on account of an underdeveloped system.

Marketing Strategy

As the firms in a developing country like Ethiopia are likely to be smaller in export experience than those in developed countries, these firms are likely to use a number of intermediaries to reduce their cost and risk to sell their products in the external market. Through export intermediaries, the exporting firms can gain access to international markets without having to incur the costs associated with measures such as searching for new markets, establishing in house marketing channels for external markets, developing knowledge base of foreign market, costs associated with developing trust and credibility with customers in external markets, negotiating and monitoring contracts to ensure performance.

Government Policy and Regulation

Government policy and regulation needs to support the garment industry so as to reduce or even eliminate the loss of both manufacturing base and labor force. Financial aid mainly provision of easy access to fund (John, 2005) or investment incentive tax aid (Chen and Cheng, 2007) education and training assistance in both product quality and labor skill development and public business operations (Mataraarachchi, 2012). Government policies have a formidable positive influence on the export performance of Indian firms (Patibandala, 1988). (Togan, 1993) investigated structure of export incentives in Turkey from 1983 to 1990, and found out that the export incentives are export credits, tax rebate scheme, premium from the "Support and Price Stabilization Fund", duty free imports of intermediates and raw materials, and exemption from the value added tax, foreign exchange allocations, exemption from the corporate income tax and other subsidies. One of the primary responsibilities of the government clearly pointed out in the Industrial Policy and Strategy of Ethiopia is creating conducive environment for industrialization.

2.1.7 Foreign Direct Investment in Ethiopia

Historically Foreign Direct Investment (FDI) started to put its fingerprint in the Ethiopian economy during the imperial era, specifically during the 1950. Relatively an encouragement has extended to foreign investors during imperial regime (Michael, 2003).

The after math of the revolution that took place in 1974 however has brought a change of policy that ruled out the role of private sector. Accordingly the state took up the leading figure in economic development. Therefore, the strategy of government targeted at demolishing private investment both domestic and foreign in particular. The outcome was that FDI inflows continuously fell down and even ceased at all in the later years of the regime.

After the downfall of the socialist regime, a liberalized economic policy was adopted by present government. It was aimed at raising the role of private sector. To this effect the Ethiopian government issued a new investment code in 1992, which was a means to robust and build up the private sector participation in the mobilization of resources and formation of capital as part of liberalization process after the end of military years during which the private sector was denounced.

2.1.8 Industrial Park Development in Ethiopia

Ethiopia is envisaging to be an industrial and a high income country within the next four to five decades. To realize this, it adopted an Agricultural Development–Led Industrialization (ADLI) strategy and formulated and implemented successive medium term plans since 1995. Among these medium term plans, the first Growth and Transformation Plan (GTP – 1) is ended. The next GTP – 2 already started 2015/2016, which focuses, among other, to transform its economy from agricultural-led to industrial–led economy. The Plan will give due emphasis not only to export–oriented and labor intensive sub-sectors, but also to high tech use such as metal, chemical, etc. Industrial supply chain and clustering will be used as a key strategy to create linkage among small, medium and large scale industries.

This strategy requires sound institutional arrangements that facilitate and enhance the development and expansion of enterprises of different sizes. Currently, based on lessons from the first GTP, it is learned that the key institutional constraints that hinder the development and expansion of large-scale manufacturing industries are capital and those related to land acquisition, customs and logistic services and low capacity and absence of coordinated effort in the development and provision of infrastructure and public services. Among these key constraints, rent – seeking behavior in land provision and problems related to attitudes for the change in the land use pattern especially in rural areas; lack of reliable supply of road, power, telecommunication, water supply; absence of industrial effluents system; and poor provision of services in custom, visa and banking are key bottlenecks for the rapid development and expansions of the manufacturing sectors. The experiences of other countries, which have gone through similar stages of development, reveals that Industrial Park Development is one of the policy instruments that can be used to effectively address these constraints.

2.1.8.1 The Ethiopian Industrial Parks Development Corporation (IPDC)

Now the Government of Ethiopia has made some changes and is working to boost Eco - Industrial Parks development and Operation that nurture manufacturing industries, and planned GTP 2 (2015/16 to 2019/20) to accelerate economic transformation in the end of GTP 2 to promote and attract both domestic and foreign investors. In order to facilitate this operation, the Government has established The Ethiopian Industrial Parks Development Corporation (IPDC).

The Ethiopian Industrial Parks Development Corporation (IPDC) was established in 2014 to avail developed land and pre-built sheds equipped with all-encompassing utilities and infrastructural facilities. Bole Lemi Phase I (156 hectares) is the first Industrial Park developed by IPDC. It started operation in 2014 and already rented-out to 9 foreign owned garment companies. The companies engaged in fully export business.

Hawassa Industrial Park (HIP) which covers 300 hectares of land is the other Industrial Park located at Hawassa 275Km away from Addis Ababa. The HIP is started in mid-2015 and completed in July 2016. The park is principally focused on textile and garment products. In Hawassa industrial park (HIP) there are 52 factory sheds with full facilities. Currently, 37 sheds are already rented out to World class known foreign companies out of which ten companies have started production and others are under investment process.

The 8,000 jobs created at Bole Lemi Industrial Park are also expected to rise up to 25,000 when all the enterprises engaged in full operation. Upon going fully operational, the Hawassa Industrial Park alone will create 60,000 jobs for citizens.

2.2 Empirical Review

Ethiopia is endowed with favorable geographical and weather conditions and abundant water resources to grow cotton. On Agriculture and Rural Development report quoted by Rahel(2007), "Ethiopia has 2,575,810ha of land suitable for cotton production, which is equivalent to that of Pakistan, the fourth largest producer of cotton in the world". This shows that Ethiopia has a huge potential to develop cotton farms for domestic input as well as export as raw material and semi processed product.

The Ethiopian textile and apparel industry is heavily dependent on imported raw material and the productivity is poor. Yared (2010) used time series econometric method to estimate the supply side determinants of the export performance of the textile and apparel industry from 1971/72 to 2008/09 and founds that raw cotton export has a significant negative impact on the export of the textile and apparel industry. When raw cotton is exported, the domestic textile mills lose the best quality (grade-A) of the raw material. This condition has forced the textile mills to use inferior

quality (might be grade B and C) raw cotton with highest cost. Due to this reason and the obsolete technology, the textile mills produce inferior quality of fabric for both domestic apparel industries and for export market. This fact implies that the export of raw cotton has a negative consequence on the overall export performance of this industry.

A study by Zhang (2001) on 11 developing countries of Latina America found that a significant benefit of FDI to recipient countries is due to technology transfer and spill over efficiency. They scrutinize the 11 Latin America countries using co-integration and Granger causality test. In their analysis, they found that FDI has a positive impact only in five of the eleven countries. The author indicated that the benefits does not happen automatically instead depends on host country absorptive capacities, liberal trade policy, human capital, and export-oriented FDI policy.

Balasubramanyamet.al. (1996) investigated how foreign direct investment impacted economic growth in developing countries using cross-sectional data and the Ordinary Least Square (OLS) regression method. He found that FDI has a positive impact on economic growth only in countries that have export promoting strategy. This supports the "Bhagwati hypothesis" that the growth impact of FDI is positive for export promoting countries than import substituting countries, emphasizing on the role of trade regime on FDI impact.

Alderin (2014) used Porter cluster chart to explain the actors and in what way they are supporting the textile industry in Ethiopia and states that Specialized textile education as specialized input, vertical integrated factories with modern equipment as machines and technology, international buyer as important clients, a national institution TIDI as a supporting service and cotton production as a related industry. In order to understand what the challenges and opportunities for the Ethiopian textile industry are, she has chosen to analyze the factors in the diamond model. She stated that factor condition as labor is the most essential factor. There is a high population of youth and inexpensive labor costs, with among the lowest wages in the world. At the same time job creation is important for the Ethiopian inhabitants and the textile industry is an opportunity of employing thousands of people. As Hamann et al. (2008) argues, because of the labor insensitivity in the textile industry, it has a significant impact on alleviating

poverty. The textile industry has been recognized to be one of the first steps towards industrialization in the transformation from agrarian to industrial society.

The garment industry is a labor-intensive industry. In most studies carried out on human capital and their implication on performance of a firm human capital enhancement will result in greater competitiveness and performance of a firm (Agrawala, 2003).

Pfaffermayr (1996) justifies the positive impact of labor force on export. Factors such as experience, training which can be on job or off job training has an effect on performance of a firm. Skilled labor force is the source of competitiveness in production. In another study done by (Kumar and Siddhartha, 1993) on Indian exporting firms it's found that Skills have a positive influence in export performance.

2.3 Conceptual Framework

Conceptual framework means that concepts that relate to one another were used to explain the research problem. Since textile and apparel sector is affected by both internal and external factors, it is necessary to understand what those factors are.

The internal factors that influence the sector can be classified as capital, labor, information technology, R&D, Management and entrepreneurial factors. The external factors include raw materials, infrastructure, Marketing strategy and government policy& regulation. The influence of these factors to the firm performance is very important but it is noteworthy that the management has no (little) control over them. Nevertheless, the factors must be closely monitored to ensure that stringent measures are taken within the best time to either take advantage of the opportunities or combat the threats found in the external environment. To align the conceptual framework with the research objectives, this study will assess challenges and prospects of textile and apparel sector specifically related with below concepts:-

Production

Production is the process of manufacturing or growing something in large quantities. Textile production is the process by which fibers, filaments, yarn, and thread are made. It also comprises the production of objects made with these materials. (Gereffi, 1999)

Foreign Direct Investment

Foreign Direct investment is an investment made by a company or individual in one country in business interests in another country, in the form of either establishing business operations or acquiring business assets in the other country, such as ownership or controlling interest in a foreign company. The textile and clothing sector has been impacted by the onset of globalization more than any other. The dismantling of trade barriers, along with lower communication and transport costs, has caused an outsourcing of value added manufacturing to low-cost nations. (Rahel, 2007).

Skill Development and Job Creation

The objective of skill development is to create a workforce empowered with the necessary and continuously upgraded skills and knowledge. Skills needed by jobs in the textile and apparel industry have greatly evolved. The Ethiopian textile and apparel industry is further expecting skills on technology, innovation and sustainability. The sector is confronted with the difficulty to bring promising and talented new workers to the sector. The following conceptual model is framed to summarize the main focus and scope of this study. (Agarwala, 2003)

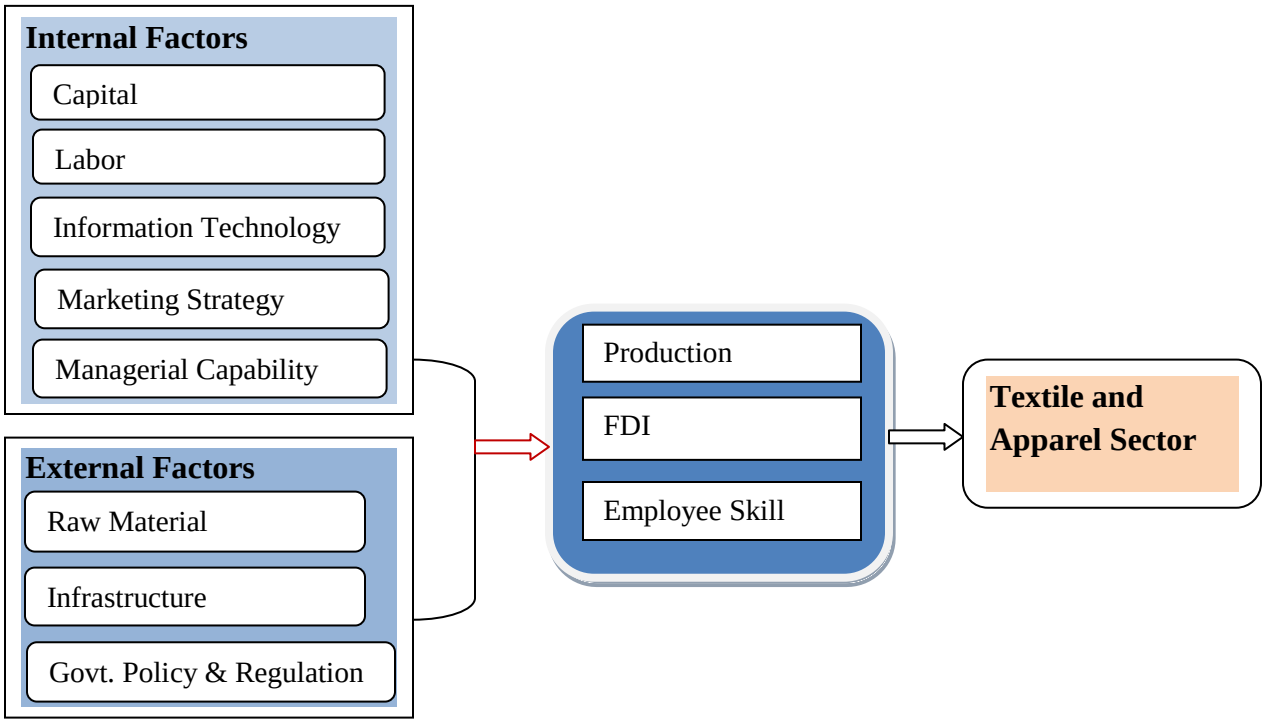

Figure 2.3 Conceptual Framework of the Study

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter dealt with research methodology, methods and designs. It also dealt with research paradigm which dictates the choice and justification of appropriate methodology, methods and relevant tools.

3.2 Research Approach and Design

Under this research both qualitative and quantitative approach is used. Since the research is mostly based on the opinion of respected public officials and factory managers the method primarily used is qualitative. However, the qualitative method is supplemented by the quantitative method of analysis to have a better insight and gain a well understanding about the research problem. Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. The research design is the conceptual structure within which the research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data and outline of what the researcher will do from writing the hypothesis and its operational implications to the final analysis of data. (Kothari, 2004).In view of the fact that the overall objective of the paper is to identify and describe the current prospects and challenges of textile and apparel manufacturing sector, the research design will be descriptive design. It's descriptive because it describes and interprets findings from primary and secondary data.

3.3 Data Type and Source

3.3.1 Data Type

The study employed both qualitative and quantitative data. In this research basically, primary data employed to gather first-hand information to achieve the objectives of the research. Secondary quantitative data also used for gathering certain secondary information in order to

consolidate the first-hand information. These two sources together generated qualitative and quantitative data, which are used to explore the essence of this project.

3.3.2 Data Source

Primary Data Source

Primary data is new data gathered to help solve the problem at hand and collected by the researchers themselves, whereas, secondary data has been collected previously by others. Primary data used in the empirical part of this study through interviews, discussing with different government institutions and observation. A semi-structured interview method employed when conducting the interviews with the companies. Semi structured interview process allows for new perspectives and new connections that might not have been immediately apparent to the researcher to be uncovered during the interviews. Qualitative interviews used to discuss the descriptive findings, and to get an idea about why the findings appear as they do.

Secondary Data Source

Secondary data are information collected by others for purpose that can be different from this paper. Secondary data is the data or information which is already available in one form or another. The sources of secondary data are books, journal articles, quoted material, textbooks, online data sources such as web pages and researches, governmental, semi government organizations and catalogues collected from different sources mainly, Ethiopian Textile Industry Development Institute, Ministry of Industry, Ethiopian Investment Commission and Industrial Parks Development Corporation.

3.4 Target Population and Sample

3.4.1 Target Population

The project population covers textile and apparel industries located in Addis Ababa. According to Ethiopian Textile Industry Development Institute, out of the total 139 textiles and apparel manufacturers in Ethiopia, there are 39textile and apparel manufacturers located within the vicinity of Addis Ababa. However, from the aforementioned manufacturers which are located in Addis Ababa, the researcher has selected10 of them as a sample for the research. This 10 textile and apparel industries selected based on their installed production capacity per year, according to

Ethiopia Textile Industry Development Institute, operational textile and apparel industries list, the above selected industries installed production capacity are above 4,000,000 pieces of textile and apparel. The lists of target population selected for the purpose of the project are as follows.

Table 3.4 List of target population

No.	Company
1	Arevined Life Style
2	Ashton Apparel
3	D.H.Geda Blanket Factory P.L.C.
4	Eltex Textile and Garment Factory P.L.C.
5	Feleke Garment P.L.C.
6	Hay Garment Manufacturing P.L.C.
7	Jay Jay Textile PLC
8	Mahiver Textile P.L.C.
9	New Wide Group
10	Yabetse Garment P.L.C.

3.4.2 Sample Size Determination

The target populations of this study are ten factories which are operating in the vicinity of Addis Ababa. The study involved a population that includes; Key informants, notably Ethiopian Textile Industry Development Institute Officials, Managing Directors of these textile and apparel factories, Ministry of Industry, Ethiopian Investment Commission, and Industrial Park Development Corporation were selected using purposive sampling techniques so as to get the information relevant to the study. They were interviewed for their input on the management of these firms/ industries. Secondary sources of data will be annual reports, Company profiles, and some reports written in the past about the industries.

3.4.3 Sampling Selection Procedure

Non-probability (Purposive) sampling used to get key informants considered knowledgeable about, and central to, the textile Industry management. These were involving choice of respondents on the basis of their knowledge on, and experience in, the subject of study. Given that the study is mostly qualitative in nature, the issue of random sampling and representatives not accorded central focus, but general focuses on key informants' evidence is considered. Key informants was interviewed, and their input supplement by secondary data sources.

3.5 Data Collection Methods and Tools

To meet objective of the study, an important starting point is the review of literature. The search for literature and documents for this study is therefore, conducted using libraries, personal collections and the internet to get both qualitative and quantitative data. The searches also generate useful documents and information that provide insights into the theme of the project by analyzing the former works. This thesis is made with mixed approach where I conducted interviews and made observations in order to collect data.

Interviews

A semi-structured interview method employed when conducting the interviews with the ten manufacturing companies, Aspers (2011) state that semi-structured interviews give opportunities for a spontaneous conversation throughout an interview. To understand the emerging challenges and opportunities of textile industry, I did interviews with different people at various positions. I conducted the interviews with CEOs, managers and workers at textile and apparel factories. I recorded and transcribed all my interviews in order to analyses my data.

Observation

In addition to the interviews, observations were made. Observation is a method for the researcher to study what is happening and to understand events in the environment. Aspers (2011) argue that the researcher first studies the overall picture and then continues by focusing on the details. Observations are often combined with conversations and questions, to greater understand the place of study (Aspers, 2011). Observations were suitable for my research in order to get an

overall picture of the textile and apparel industry and to understand the production process and operations done by employees.

3.6 Data Analysis and Presentation

3.6.1 Data Analysis

This part of the thesis paper help to provide the answers of the research problems by combining the primary interviewees and secondary data. After the raw data were on hand, both trend and descriptive analysis used. Trend analysis were used to examine the general trends in the textile and apparel manufacturing sector in Ethiopia and to assess the contribution of textile and apparel industry to foreign direct investment secondary data collected and analyzed using desk-top analysis method on the other hand descriptive analysis and narrations are used to see the contribution of textile factories in skill development and job creation and to analyze the challenges affecting production capacity of textile and apparel industry in Ethiopia.

3.6.2 Data Presentation

To achieve the stated objectives and come up with results, in its presentation, the paper used tables and percentage data presentation. The main reason to make use of these methods is the very nature of the study. Secondary data also used both in its original form as given in the source and in modified form. Overall, there is blending of the different kinds of information that are collected to explain the subject of this paper.

CHAPTER FOUR

4. DATA PRESENTATION AND ANALYSIS

Introduction

This chapter is based on the primary and secondary data collected from various stakeholders and publications, reports and data found from Ethiopian Investment Commission, Ethiopian Textile Industry Development Institute, Ministry of Industry, Industrial Park Development Corporation and Ethiopian Customs and Revenue Authority. Therefore, the following part presents the views of respondents on the challenges and prospects of Textile and Apparel Manufacturing sector.

The researcher has conducted an interview and observation in order to find the basic challenges that affect production capacity of the sector, their trend and contribution to foreign direct investment and employee's skill. The findings are analyzed here under. For interpretation purpose and for forming a conclusion the data collected is organized based on the researchers' research questions.

4.1 Profile of the Respondent Firms

The target populations of this study are ten factories, which are operating in the vicinity of Addis Ababa. General profile of the sample companies are stated in the below table.

Table 4.1 General Profile of respondent firms

S/N	Company Name	Year Of Establishment (In G.C)	Type Of Production	Installed Capacity/Year /Pcs	Attainable Capacity/Year/ Pcs	No. of Employees
1	Arvind Life Style	2013	Knits Shirts	10,500,000	6,000,000	850
2	Ashton Apparel	2014	Woven Garments	5,472,000	3,750,000	1594
3	D.H.Geda Blanket Factory P.L.C.	2002	Blanket	5,627,232	1,131,500	486
4	Eltex Textile and Garment Factory P.L.C.	2004	Knitted & Woven Garments	5,000,000	3,000,000	1400
5	Feleke Garment P.L.C.	2006	Knitted Garment	5,900,000	3,700,000	263
6	Hay Garment Manufacturing P.L.C.	2013	Knitted Garment	4,080,000	2,880,000	34
7	Jay Jay Textile PLC	2013	Infant Wear	15,000,000	10,500,000	420
8	Mahiver Textile P.L.C.	2011	Woven Fabrics	6,589,000	4,320,000	429
9	New Wide Group	2015	Sport Wear	4,000,000	2,625,000	491
10	Yabetse Garment P.L.C.	2011	Baby Garment	8,424,000	624,000	80

Source: Ethiopian Textile Industry Development Institute

According to Ethiopian Textile Industry Development Institute record the respondent firm's respective year of establishments shows that only three firms were established in 2002, 2004 and in 2006, while two added to the market in 2011. From the year 2013 to 2015 five firms were established. As we can observe from the above table most of the firms engaged in the garment-manufacturing sector have a minimum of three years and a maximum of 16 years' experience in the sector.

4.2 Trends of the Industry

4.2.1 Export Trend

Ethiopia is aiming to generate $30 billion from the export of garment and textile by the year 2025, which is an ambitious target for a country whose shipments are only $115 million in 2017. Its goal represents a 300-fold rise in shipments in just eight years.

Table 4.2.1 Five years Export plan and Performance data of Textile Products (USD)

	Type of Product	FY (2012/13)		FY (2013/14)		FY (2014/15)		FY (2015/16)		FY (2016/17)	
		Plan	Perf.	Plan	Perf.	Plan	Perf.	Plan	Perf.	Plan	Perf.
1	Yarn	29,703	23,464	77,348	28,147	90,335	12,199	31,577	11,059	13,882	8,212
2	Fabrics	29,904	9,599	35,544	6,321	59,248	9,185	26,073	6,989	42,752	12,777
3	Apparel	91,185	61,009	230,029	72,148	276,920	72,030	105,355	56,490	212,953	64,339
4	Cultural Clothes	5,810	4,916	7,078	4,738	8,363	4,647	1,994	3,433	1,413	4,012
	Total	156,602	98,988	350,000	111,353	434,867	98,061	165,000	77,971	271,000	89,340
Annual Growth Rate (%)		**-**	**-**	**123.50**	**12.5**	**24.25**	**(11.94)**	**(62.1)**	**(20.5)**	**64.2**	**14.6**
Average Annual Plan Growth Rate (%)		**30**									
Average Annual Perfor. Growth Rate (%)		**(1.07)**									

Source: ERCA

From the above table we can see that in year 2012/13 the plan and actual performance showed a difference of 57,614 which is around 63% performance. For 2013/14 it is almost half lower than the last year which is around 32%. The number further drops on 2014/15 to approximately 23%. The performance increased from the previous year in 2015/16 showing a 47% which again dropped to 33% last year. So taking from the data given from ERCA the industry showed lower

performance than planned for the last five years, which is much lower than 100% except for the year 2012/13.

The planed amount seems to increase more in every year whereas the actual performance is very low. As a result the average annual performance growth rate is lower than 0% while the average annual plan rate is 30% .We can also observe that the annual plan and performance growth rates have been declining from year to year except for the year 2016/17 which shows a significant increase. It can be generalized as the below graph.

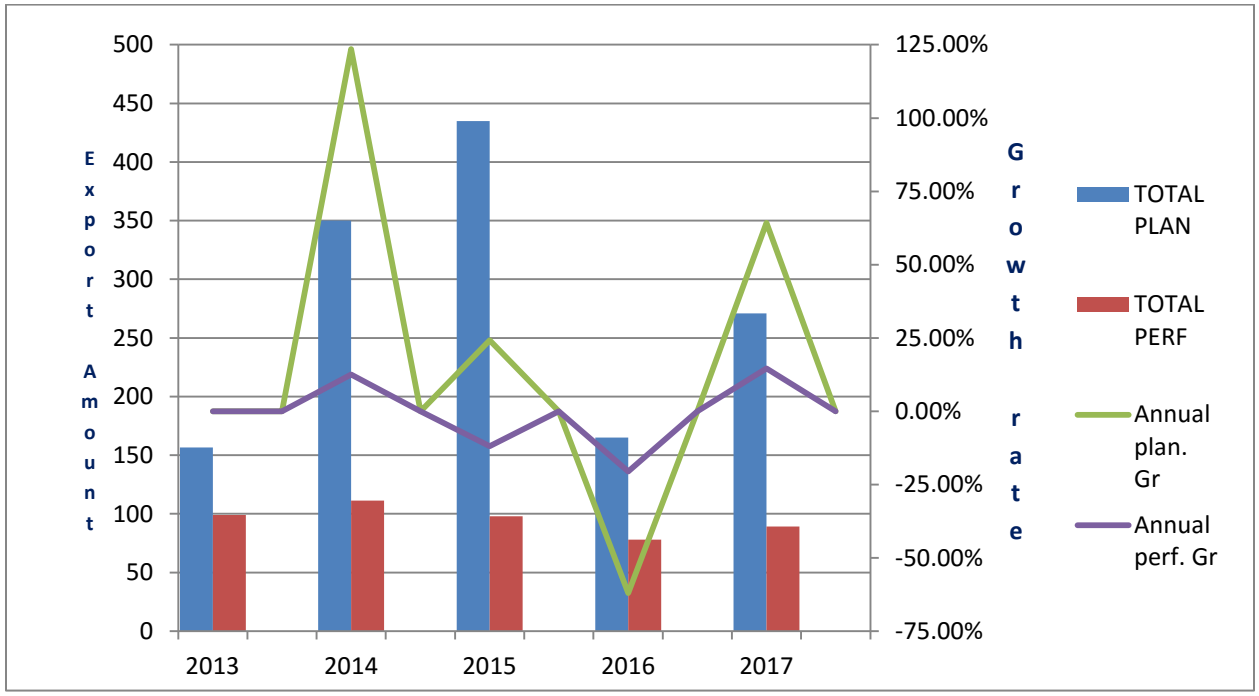

Figure 4.2 Textiles and Apparel Export Trend of Ethiopia (000'USD)

4.2.2 Production Capacity Utilization Trend

In addition to the export performance report presented by ETIDI in 2018 G.C regarding GTP 1 and mid GTP 2 depicted below in the table, textile and garment sector capacity utilization rate has increased from 57 percent in 2012/13 to only 68 percent in 2016/17 while the plan was to increase capacity utilization rate from 75 percent in 2012/13 to 97 percent in 2016/17. Particularly the garment sector capacity utilization rate has only increased from 54 percent to 65 percent whereas the planned target was 70 percent to 95 percent in the study period 2012/13-2016/17. Planned capacity utilization growth rate progressively increased while the actual or

achieved capacity utilization growth rate almost remained the same from year to year except for year 2015/16 which showed a decline from 64 % to 60%.

Table 4.2.2 Textile and garment Industries Capacity Utilization rate

Product Description	**(2012/2013 G.C)**		**(2013/2014 G.C)**		**(2014/2015 G.C)**		**(2015/2016 G.C)**		**(2016/2017G.C)**	
	Planed	**Achieved**	**Planed**	**Achieved**	**Planed**	**Achieved**	**Planed**	**Achieved**	**Planed**	**Achieved**
Garment	70	54	75	55	85	60	90	57	95	65
Textile	80	59	85	65	95	67	97	62	99	70
Total	75	57	80	60	90	64	94	60	97	68

Source: ETIDI

4.2.3 Employment Opportunity Performance Trend

Textile and garment sector is known for taking up large number of skilled as well as semiskilled and trainable workforce. According to GTP 1 and GTP2 documents it was planned to create 59,247 employment opportunity in the textile and garment sector totally within the study period (2012/13 to 2016/17). However only 23,018 jobs were created accounting for 39 percent of the target. In the same manner the garment sector took in 14,417 workers compared to 23,018 achieved which is similar to 62.6% of the total amount whereas the textile sector took the rest 8,601 workers which accounts for 37.4% of the archived employment opportunity created within the five year of the study period i.e. 2012/13-2016/2017 G.C. as shown in detail on the below table.

Table 4.2.3 Textile and Apparel Sector Employment Opportunity Performance

Product Type.	2012/2013 G.C)		(2013/2014 G.C)		(20114/2015 G.C)		(2015/2016 G.C)		(2016/2017 G.C)		Total	
Garment	Planed	Achieved	Planed	Achieved	Planed	Achieved	Planed	Achieved	Planed	Achieved	Planed	Achieved
	3,524	3,359	6,719	1,581	7,730	3,239	8,019	2,334	8,669	3,904	34,661	14,417
Textile	2,361	2,239	4,479	1,054	5,153	1,184	5,933	1,563	6,660	2561	24,586	8,601
Total	5,885	5,598	11,198	2,635	12,883	4,423	13,952	3,897	15,329	6,465	59,247	23,018

Source: ETIDI

4.3 Contribution of the Industry to FDI

Table 4.3.1 Textile & Apparel Industries Export Value (IN '000 USD)

Product Type	**EFY**				
	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Cotton		-	-	-	2,880
Yarn	21,536	28,147	12,136	11,212	4,957
Fabric	9,009	6,321	9,160	6,836	12,778
Garment	61,485	72,141	71,902	56,419	64,159
Hand Woven	5,193	4,725	4,766	3,426	3,907
Other	1,772	19	59	78	660
Total	**98,995**	**111,352**	**98,021**	**77,971**	**89,341**
Annual Growth		**12,357**	**(13,331)**	**(20,050)**	**11,370**
Annual Growth Rate		**12**	**(12)**	**(20)**	**15**

Source: ERCA

As it can be seen from the above table considering 2012/13 as a base year the following year has shown an increase while the next two years have been declined but again in 2016/17 fiscal year it

shows an increase from the previous year. The overall export performance shows inconsistence growth.

As per the discussion the researcher had with Ato Tirualem from Ethiopian Textile Industry Development Institute there were many problems mentioned for the cause but the major was the unavailability of cotton due to the fact that the cotton manufacturers directly export the cotton and when the government banned exporting they were still selling to local manufacturers with export price.

Table 4.3.2 Firms Respond on Government Incentive

Questions raised for discussion	**Answers provided**		
	Yes (%)	**No (%)**	**Total (%)**
Does the government provide to you any incentive being engaged in your business area?	80	20	100

As per the response of the selected companies 80% agreed that the government is supporting them, but two negates this statement because the government focuses on extending full support to those that are engaged in export rather than the ones producing to the local market.

Development Bank of Ethiopia (DBE), as well as Ethiopian Investment Commission (EIC), installed a scheme of incentives for foreign direct investors to boost up the FDI and achieve the 2020 target. According to the incentive schemes all fabric/ garment trimmings can be imported under the condition and those goods are destined for exports and will not be sold or distributed in the local market. Some of the other facility for foreign investors are given below:

- Customs duty-free for importing textile and apparel equipments.
- There has Corporate Income Tax release (CIT) for 1-9 years depends on location and product export ratio.
- Income tax will be considered to 2 to 7 years for manufacturing investments.
- The regular corporate tax is 25-30 but FDI it will be 10%.
- According to the voucher scheme, a printed voucher having monetary value, which can be sued to pay duties at the time of exports of finished

- DEB (Development Bank of Ethiopia) will support for large-scale investments.
- Bank interest rates will not over than 8% – 8, 5% terms for investment and co-financing based on 10 years.
- Duty drawbacks, vouchers, export credit guarantee schemes on export incentives.
- VAT is 15% paid back able on a monthly
- There has no income tax for a foreign employee that supports knowledge transfer or exchange of expertise for at least 2-4 years.
- Electricity tariff of 2.7 cents per KW instead of EU is 10-12 times more.
- The government will give lease the Shed (Factory and building space) only USD 1 or 2 per square meter in the industrial parks instead of USD 27 per square meter Eastern Industrial Park.

4.4 Skill Development and Job Creation

4.4.1 Skill Development

Table 4.4.1 Skill Development

Questions raised for discussion	Answers provided		
	Yes (%)	No (%)	Total (%)
Is there skill development session	70	30	100

As per the response and the data collected from the sample companies gaining an experienced labor is a huge problem because of this most of companies (70%) give trainings and skill development sessions. I have observed one training session being provided by Jay Jay from the time I have, while I was interviewing their deputy human resource and administrative manager.

Although the skill development session is given by the industries it is not satisfactory because retaining those trained laborers has been a difficulty to all the sample companies the researcher interviewed.

Due to the fact that the hired laborers came from agriculture and some from construction industry giving training is sort of mandatory act not just a compliment to the workforce but a key requirement for production.

4.4.2 Job Creation

One of the industrial policy centers of the textile and apparel industry for many developed and developing countries is the creation of more job opportunities for their people due to the very nature of this industry. In Ethiopian case, textile and apparel industry is one of the top three manufacturing industries in creating employment opportunities.

Table 4.4.2 Number of Employees in the Respondent Firms

S/N	Company/Factory Name	No. of Employees		
		Male	Female	Sum
1	Eltex Textile and Garment Factory P.L.C.	300	1100	1400
2	D.H.Geda Blanket Factory P.L.C.	240	246	486
3	Mahiver Textile P.L.C.	242	187	429
4	Ashton Apparel	168	1426	1594
5	Jay Jay Textile PLC	42	378	420
6	New Wide Group	435	56	491
7	Arvind Life Style	346	504	850
8	Feleke Garment P.L.C.	13	250	263
9	Haya Garment Manufacturing P.L.C.	15	19	34
10	Yabetse Garment P.L.C.	4	76	80

From the above table Ashton has the maximum employee number from the sample ten companies selected, to which Hay Garment has only 34 employees. And from the observation the researcher had in the factory site, the manager has said the unavailability of space has limited their capacity. From the planned 59,247new job creation form the industry only 23,018 is actually attained to which it is not satisfactory as per the response of ETIDI.

4.5 Challenges Affecting Production Capacity

4.5.1 Employee Turnover

One of the major factors affecting the production of these textile industries is employee turnover. Absenteeism and turnover is the highest in Bole lemi which is almost 15%. Mr. V Kannan deputy Human resource and administration manager has responded that this has been the major hindrance to their performance.

Although retention of labor force is difficult in this industry worldwide he said that it is much higher in Ethiopia. He further stated that on average 200 employees stop showing to work per month without any notice given, and in addition to that because the process they are using is different laborers should be given training before they become fully functional which takes even more time.

Employee turnover issue is shared almost equally for the four companies the researcher interviewed that are located in Bole Lemi. Changing the behavior of the workers from agrarian to industrial is the major challenge still.The researcher has interviewed Ms. Engedu from IPDC on this issue and she has agreed to the severity of the problem and they are continually working on improving the conditions both for the workers and the companies. The major cause for the turnover as expressed from Ms. Engedu is low wage rate as compared to the booming construction industry. So after working just a few days they go to construction sites because the daily wage is much better than what the textile industries are offering.

4.5.2 Logistics

The process it takes to import goods from Djibouti is very time consuming as per the response of the selected companies. And their response is anonymous along all of them. Furthermore, it is expensive.

According to the views of the garment firms, the problem on overseas distribution of goods mainly takes place due to lack of information about marketing channels, lack of experience in exporting and failure to establish marketing networks.

According to the firms, high cost of transport and lack of alternative cheap transport facilities are the main causes for the problems with regards to distribution of their products to the point of

export. Surveyed firms affirm the favorable condition of the road to the point of export and the ease to transport goods in short period of time. However, the existing in land transport is highly volatile in its price and availability.

The unavailability of raw material locally has forced almost all to import and starting from gaining currency which is another challenge currently the travel and logistic cost is very high.

The problems in relation to domestic distribution of goods are also viewed moderately by the firms. Most respondent firms affirm problems of domestic distribution of goods, since reliable distributor who would adequately represent the firm does not exist in the country, as a result most firms are forced to establish their own retailing shops in different parts of the country and this leads to additional overhead cost. Although, the road condition of the country has been considerably improved, most of the roads are seasonal roads. The high cost of transport and the inefficient conditions of transport companies create difficulty in the domestic distribution and this in turn severely affects firms' competitiveness.

4.5.3 Raw Material

Ethiopian garment firms are competing in the international market with firms or countries that have their own fabric and accessories components industries or with those that import their inputs from a very near location. These conditions help them to reduce their unit cost of production and in turn to be competitive in the international market. The study found out several problems in relation to local inputs: they are of inferior quality, cannot supply the needed quantity, and the reliability of most firms is questionable.

Table 4.5.3 Raw Material as a Factor

Questions raised for discussion	**Answers provided**		
	Yes (%)	**No (%)**	**Total (%)**
Is your firm highly dependent on imported raw materials	100	0	100
Is there adequate supply of locally produced raw materials	0	100	100

Based on the response the researcher received from both local and international companies it is their desire to get the raw materials for their production locally since there is no currency and it is much expensive.

Quality and availability is a major concern. Even cotton production is very low that local textile companies are forced to import.

4.5.4 Product Quality

The success of securing markets comes along with producing quality and price competitive products. Thus, improving the quality standard of products is a basic task along with improving the productivity of firms. Maintaining the quality of the firm's product is not only determined by the firm's internal factors but also by the role of other related industries, government and R&D institutes; availability and cost of finance, availability and cost of raw materials.

According to the respondent firms, there is no firm that works under the surveillance of a local quality control and standard authority. A large proportion of firms responded that the quality of their products is determined by the demand of the market and level of technology they employed.

4.5.5 Currency Problem

Foreign currency shortage is an obvious problem which doesn't need a research to prove. Due to the fact that almost all of the raw materials are imported it is creating a major problem in the production and the survival of local textile industries

The problem tends to be severe for the local textile industries, because like in the case of Newwide it has an international existence and all the purchase is handled from the head office which is located in Taiwan so currency is not that much of a headache to them.

But as the researcher interviewed the owner of Feleke Garment AtoZena, they are currently operating on the raw materials imported from the last year approved currency. And it is costing them huge deal since they are performing and paying for labor and other costs in the hope of getting currency and this may take more than 3 to 6 month to process.

4.5.6. Employees Skill

Table 4.5.6 Employees Skill as a Factor

Questions raised for discussion	Answers provided		
	Yes (%)	No (%)	Total (%)
Is there access to get required level of skilled labor?	30	70	100

Based on the response of Mr. Kannan because of the unavailability of skilled labor they are forced to use manual processing on some of their production, since if they imported machines they use on their other plants there is no skilled labor to operate the machines.

Ethiopia's inadequate educational and Technical Vocational and Training (TVET) system has limited the development of a qualified labor supply. In addition, the high rate of employee turnover is a significant constraint in the industry. Ultimately, the competitiveness of the Ethiopian textile and apparel sector depends on how productively industry can use its human capital. Enhancing productivity requires going beyond preferential market access, low factor costs, and subsidies.

Finding skilled labor for management and technical roles is an even bigger challenge. Most of the firms will have to rely on expatriate staff until a sufficiently skilled workforce is ready. The government is facilitating the hire of qualified expatriate managers by simplifying visa and work permit procedures while encouraging them to train local Ethiopians.

4.5.7 Infrastructure

To be competitive in the world market, the firms should have access to well-organized production and marketing infrastructure including power supply, telecommunication service, and roads to the port, domestic quality of packaging, sea and air transport.

Table 4.5.7 Infrastructure as a Factor

Questions raised for discussion	Answers provided		
	Yes (%)	No (%)	Total (%)
Do you have adequate basic infrastructure in the area of your business operation?	60	40	100

60% of the respondents said they have adequate infrastructure to which they consider it acceptable. From those respondents 40% are located at Bole Lemi I Industry Site. And from the response of IPDC branch at Bole Lemi I they work hard to facilitate the service need of the companies by taking responsibility. Utilities, bank service and other are provided under the vicinity. But for the companies located at Lebu infrastructure is less than satisfactory based on the response of the company owners. Furthermore, their facility is unable to accommodate their need for expansion.

The proportion of firms with complaints about the power supply, telecommunication, and air freight are not large. This takes place mainly due to the improvements of the quality of the services, here the firms confirm that in the past few years, power supply and telecommunication services have been considerably improved in Addis, for instance, the Power supply becomes stable and has sufficient voltage. However, the cost of power supply is highly volatile and as a result the installation cost drains the significant portion of investment cost.

4.5.8 Technology

Table 4.5.8 Technology as a Factor

Questions raised for discussion	Answers provided		
	Yes (%)	No (%)	Table (%)
Is technology an issue to your company?	40	60	100

60% of the respondents said that they don't have an issue with technology. These respondents are mainly had international presence like New wide and Jay Jay that they have brought their own technology.

But for local companies like Feleke and Yabetse they are using traditional way of production and their manpower is also managed manually. The main reason for this is the resource constraint mainly cash.

4.5.9 Marketing

Most firms have a choice between developing own marketing strategy by acquiring adequate marketing personnel or are likely to use a number of intermediaries to reduce their cost and risk to sell their products in the external market. Through export intermediaries, the exporting firms can gain access to international markets without having to incur the costs associated with measures such as searching for new markets, establishing in-house marketing channels for external markets, developing knowledge base of foreign market, costs associated with developing trust and credibility with customers in external markets, negotiating and monitoring contracts to ensure performance.

Table 4.5.9 Marketing as a Factor

Questions raised for discussion	**Answers provided**		
	Yes (%)	**No (%)**	**Total (%)**
Is there a platform for your company to introduce its products to the market, both local and foreign?	20	80	100

80% responded that there is no platform for them to introduce themselves to the market especially to the foreign. 20% respondents said that there is a platform but it is only for local market, and it is once a year.

Ato Tirualem from Ethiopian textile industry has corroborated on this fact that the institute organizes a trade event twice a year for suppliers of raw material and textile industries. But not many textile companies have information on this event. And the scope is very limited that they are not interested in attending most of the time.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATION

5.1 Conclusion

In the earlier chapters, the study tries to analyze challenges and prospects of the Ethiopian textile and apparel industry with regard to production, foreign direct investment and skill development and job creation. Based on these analyses the study has forwarded its conclusions as follows;

- The performance of the industry showed a growth on 2013/14 and decreased for the following two years and showed a little change in 2016/17. For this it can be concluded that the industry is stagnant.

- Textile and Apparel production and export has shown an increasing rate for 2013/14 but it declines in the following two years and shows a little change in 2016/17. From this it can be concluded that the growth rate is inconsistent and its contribution to FDI is minimum.

- 80% of respondents have said that they receive incentive form the government. It can be inferred that government is supporting export textile companies.

- Most respondents agreed to the fact that they give training session to their technical employees. From this one can infer that these companies work on their technical employees' skill.

- From the planned 59,247 new job creation from the industry 23,018 is actually attained. From this it can be concluded that the sector's contribution to job creation is not satisfactory.

- Employee turnover and absenteeism is found to be the most challenging factor for respondent firms as training costs are high and time consuming it affects the performance of the firm's production capacity.

- Logistics is another factor affecting the firms production capacity as the process it takes to import goods from Djibouti is very time consuming and expensive.

- All of the sample companies use imported raw materials. It can be said that there is no adequate quality raw materials like cotton available in the local market.

- All the respondent firms have said that they did not work under the surveillance of a local quality control and standard authority. From this it can be concluded that there is no intervention by the government to improve the quality of the products and this hinders the competitiveness of the firms in the international market.

- Currency is another challenge to the sample companies since it is a country wide problem. This is explained by the requirement of high interest rate and huge collateral along with the lengthy process of financial institutions which made it difficult to garment industries to perform well in export.

- 70% of the respondents have said that they are facing problem in finding skilled and well experienced employees. From this it can be concluded that there is high shortage of skilled employees.

- 60% of the respondents have said they have adequate infrastructure considering the general situation of the country. From this it can be concluded that the industry sites are giving a satisfactory service.

- Technology is also a challenge for some textile firms because of lack of finance to acquire new technology and shortage of capable talent in the field.

- 80% of the respondents agreed that there is lack of platform provided by the government for them to penetrate both local and international market. From this it can be inferred that there is lack of platforms for companies to be able to introduce their product to the potential market.

5.2 Recommendation

- The planning made by the government should be realistic and incorporate the current stand of the industry, and stop expecting too much in short period of time from a still infant stage industry.

- Although the government focus on building industry sites is contributing to the growth of the industry, some level of support should be provided to the local producers since they are the ones that can grow to exporting standard.

- The government should be involved mainly on creating market by working in partnership with other companies. The government can support local industries in introducing themselves to the international market whenever there is one held abroad. Furthermore, local textile and apparel industries should be given a platform to supply their products locally since that will help them to build their strength.

- The demand for clothing is relatively high, due to the large size of the population. Therefore, import substitution becomes important to fulfill the local demand as well as to save foreign exchange.

- The government should give emphasis to local producers of garment as it gives more emphasis for export-oriented firms. In other words, the government should consider the implementation of import substitution strategy in complement with export-oriented strategy on garment sector development.

- The incentives for garment and textile sector should also include the local producers in order to enable them enhance their expertise, technology, quality of the products and working system. Through such mechanisms the successful ones will be ready for export through the practice or approach of learning by doing.

- Although the industries contribution to FDI is unsatisfactory it has a potential to reach its goal if it is worked on local raw material production.

- The government should also extend its efforts for cluster development which has a great potential to bring about a wide range of benefits: encouraging regional economic growth, enabling firms to bid for large pieces of work, developing supply chain of the sector, improving working force skills, economies of scale by joint purchasing and marketing, improvement of the information flow.

- The government should develop a specific strategy on the garment sector under the export-oriented strategy framework in order to identify various interventions that show how these preferential market accesses especially AGOA and EBA can be effectively utilized with the consultation of all stakeholders including the government, manufacturing firms, financial institutions, and custom office, in land and sea transports agencies.
- The government should encourage the establishment of specialized banks in joint venture such as export-import banks that may help to transfer skill on banking business and in turn resolve the problems to some extent in export and imports.

- Since the establishment of integrated textile mills needs huge investment, the government should contribute its share in the form of joint venture to encourage and develop the confidence of the private sector to get involved in the garment sector.

- Skilled labor is a major issue to the industry and the researcher recommends that the government include curriculum in its universities to produce manpower that is aware of the current textile industry technology.

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Observations

Observation 1: D.H.Geda Blanket Factory P.L.C. 07-04-218, Akaki-Kality Sub city

Observation 2: Ashton Apparel, 10-03-2018, Bole Lemi Industrial Park, Shade No. 19 & 20B

Observation 3: Jay Jay Textile PLC, 17-03-2018, Bole Lemi Industrial Park, Shade No. 7, 8 & 9

Observation 4: New WideGarment, 24-03-2018, Bole Lemi Industrial Park, Shade No. 01

Observation 5: Arvind Life Style, 03-03-2018, Bole Lemi Industrial Park, Shade No. 4 & 5

Observation 6: Feleke Garment P.L.C., 31-03-2018, Lebu Industry Zone

Observation 7: Hay Garment Manufacturing P.L.C., 07-04-2018, Bole Sub City

Observation 8: Yabetse Garment P.L.C, 14-04-2018, Nifas Silk Lafto Sub City

APPENDICES

Appendix I

Interview questions designed for firms mentioned on the sample study

I. Background Information

- Respondent's Name and Title
- Contact Address (Optional)

II. Production Capacity

1. Is there adequate supply of locally produced raw materials?
2. Did the locally produced raw material are of the required quality.
3. Is your firm highly dependent on imported raw materials?
4. Do you have adequate basic infrastructure in the area of your business operation?
5. Do financial institutions provide adequate finance in terms of currency and loan?
6. What are the major factors affecting your production?
7. Is technology an issue to your company?

III. Foreign Direct Investment

1. Who is/ are the main competitor(s) of the firm in the foreign market?
2. Is there a platform for your company to introduce its products to the market, both local and foreign?
3. Foreign visit and participation in trade fair and promotion activities to reach and maintain market?
4. Do you think there is strong government support for export trade?
5. Does the government provide to you any incentive being engaged in your business area?
6. What is the major factors hindering you from penetrating the foreign market?

IV. Skill Development and Job Creation

1. Do you have access to get required level of skilled labor for your business from local labor in the market?
2. Do you think there is a good supply of unskilled and trainable work force for the sector?
3. Is your company having skill development sessions?
4. Is there Skilled and well-experienced managers are available in the market?
5. Do you have freedom to hire and fire employees?

Appendix II

Interview questions Designed for selected government offices.

Government offices

- Ethiopian textile industry development institute
- Ministry of industry and trade
- Ethiopian investment commission
- Industrial park development corporation

I Background Information

- Your position
- Responsibility in the organization

Questions for prospects and challenges of textile and apparel manufacturing sectors in Ethiopia in the case of Addis Ababa

1. How do you describe the current performance of textile and apparel manufacturing sector in Ethiopia?
2. What specific measures did the government took in supporting this sector? And how is the result?
3. What are the major challenges of this sector?
4. What is the future plan formulated for this sector by the government?
5. Is there adequate basic infrastructure in the investment locations?
6. Are the current business and investments rules and regulations of the country convenient to attract investors?
7. Do you think that most of investment related government offices' delivered their service efficiently?
8. What has been done by your side to facilitate export capacity of this sector?
9. Is there any platform created for this sector to introduce their product to the local or foreign market?

Appendix III

Observation Guide

Background Information

Company Name

_____

Date of Observation

_____

Duration of Observation:

__ 1 hour __ half day

__ 2 hours __ whole day

Other,

_____

Name of Presenter (s)

_____

1. The types of Products (a) Yarn (b) Fabrics (c) Apparel (d) Cultural cloths
2. Ownership of the company? (a) Local (b) Foreign
3. Who are on the top management? (a) Locals (b) Foreigners (c)Both
4. Which Production techniques are used in the manufacturing process (a) Handmade (b) Machine made (c) Both
5. What kinds of technology are adopted?
6. Type of training provided to the employees (a) Technical Training (b) Skill Training (c) Managerial Training (d) Team Training
7. Number of employees (a) Female (b) Male
8. Number of employees present in their workplace (a) Few (b) Reasonable (c) All
9. Is there inadequate infrastructure in the area (a)Water (b) Power supply (c) Telecommunication (d) Road
10. Location of the company from main road (a) Near (b) Moderate (c) Far

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dr. Dereje Teklemariam. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Selamawit Kumera _____

Name Signature

St. Mary's University College, Addis Ababa **May, 2018**

ENDORSEMENT

This thesis has been submitted to St. Mary's University College, School of Graduate Studies for examination with my approval as a university advisor.

Dr. Dereje Teklemariam _____

Advisor Signature

St. Mary's University College, Addis Ababa May, 2018